



Food and Agriculture Organization of
the United Nations

REPORT
of the Preparatory Commission
on World Food
Proposals



*Presented by the Minister of Food to Parliament
by Command of His Majesty
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REPORT OF F.A.O. PREPARATORY COMMISSION ON WORLD FOOD PROPOSALS

CHAPTER 1. THE BACKGROUND

Terms of Reference

1. The task assigned the Preparatory Commission on World Food Proposals was to work out specific recommendations for achieving two objectives:

“(a) Developing and organizing production, distribution and utilization of basic foods to provide diets on a health standard for the people of all countries;

(b) stabilizing agricultural prices at levels fair to producers and consumers alike.”

These are the objectives of Sir John Boyd Orr's “Proposals for a World Food Board”^{*} as defined and unanimously accepted by the Conference of the Food and Agriculture Organization of the United Nations which met in Copenhagen in September, 1946.

2. The Conference considered action on these Proposals to be a matter of urgency and accordingly set up the Preparatory Commission to carry them further, instructing it to meet without delay. It was asked to consider not only the Proposals of Sir John Boyd Orr but any other relevant proposals and documents and to prepare its report as soon as possible. The Commission met in Washington on 28th October, 1946, and completed its work on 24th January, 1946. It was organized in two main committees, one to deal with the problems of developing and organizing the production, distribution and utilization of foods and other agricultural products (including those of forest and fisheries) and the other with the problems of price stabilization and commodity policy.[†]

The Setting of Our Report

3. This report will appear at a time when a world shortage of food amounting to famine in some lands, and ration scales even more exiguous than those of the late war, dominate the situation in others. At first glance, therefore, it may seem untimely and unreal to stress the problem of potential food surpluses. Nevertheless, the expansion of production capacity in agriculture and in industry during and since the war has been very great in certain countries. Unless measures are taken to expand consumption and purchasing power far above the prewar levels we shall be faced in a few years with the danger of a major slump in primary production and probably a major industrial recession.

Review of the Inter-War Years

4. It may be salutary to begin by taking a brief glance backward. In many respects the situation today parallels that following the War of 1914-18, though in some ways it is more heavily charged with the potential of disaster. During the First World War production in industry and agriculture outside Europe expanded to meet war needs, and in the postwar years was utilized for restocking and re-equipment. When the economies of the war-damaged countries were restored, production outside Europe continuing at a high level could not find adequate markets, and surpluses began to accumulate. There

^{*}Proposals for a World Food Board, Washington, 5th July 1946.

[†]For the official terms of reference and membership of the Commission and the terms of reference of its Committees, see the “Summary of the Report of the Preparatory Commission on World Food Proposals” (Cmd. 7032) and the list of delegates in Appendix I.

was not sufficient purchasing power to absorb the world's output and so industrial activity slumped, although a thousand million people still lacked the most elementary consumer goods. Agricultural output was maintained but the prices of farm products and the income of farmers declined very appreciably.

5. The world slump of 1929-32 and the disastrous price relationships resulting from it coincided with, indeed precipitated the breakdown of the gold standard of international markets and other arrangements on which the world's trade had been maintained. The pre-1914 concept of one world, economically speaking, had crumbled. Each nation sought to protect its own position, tariffs were raised, import quotas and prohibitions were instituted and currency restrictions were imposed. In the international sphere there was little realization of the fact that the old order had broken down and required replacement by a new system. Meanwhile producers throughout the world groped their way to solutions by means of international agreements. For lack of power and inspiration to stimulate consumption, the agreements too often were concerned with restricting production.

6. In the middle 30's the world climbed painfully out of the depression. Yet even in 1937, generally regarded as a cyclical "peak," there were still millions of unemployed in industrial countries and half the people of the world still did not have enough food to be decently nourished. Nor had many of the producers, in spite of the negotiation of international producers' agreements covering a wide range of commodities, secured either the level or stability of prices which they sought. Late in 1937 the economic system of the world once more turned down into a depression, averted only by the approach of a Second World War. The world entered the war of 1939-45 with its economic problems unsolved.

Changes in World War II

7. The late war has occasioned even greater changes in production than World War I. In Europe and large parts of Asia dislocations and destruction have drastically reduced industrial output. Agricultural output has also declined. Lack of manpower and draft power reduced the area of land in cultivation; lack of manure and fertilizer reduced the yields per acre; lack of feeding-stuffs reduced livestock numbers and output of milk, meat and eggs. Reconstruction both in agriculture and in industry will take a considerable time and at present is handicapped by shortage of materials and foreign exchange and by malnutrition, ill-health, and a sense of frustration among many peoples, resulting in a low productivity of labour.

8. Outside the invaded areas, agricultural and industrial output increased during the war. For example, in North America industrial production more than doubled and agricultural output increased by approximately 30 per cent. over the prewar period. By contrast, the corresponding figures in World War I were approximately 35 per cent. and 10 per cent. Also in parts of Latin America expansion of industrial and agricultural production took place. In industry the full effect of this Western Hemisphere expansion will only become apparent as conversion to peacetime production is completed. In agriculture the wartime high levels of production are being maintained and in some instances increased in response to appeals to provide food for needy nations.

9. As long as the war-expanded productive capacity is being used to restock and re-equip the world, all appears to be well. But once the farms and factories of Europe and Asia are restored and in full production the problems will arise of finding markets for the augmented world output. In order to avoid a repetition of the disasters of the last postwar period, it is necessary to increase consumption and purchasing power to an extent which

will keep the world's production capacity fully utilized and steadily expanding. It is only such a programme which can provide long-term stability of prices to agricultural producers and others. The task of this Commission is to suggest ways and means by which this expansion can be accomplished insofar as agriculture is concerned; but it is clear that agriculture must be considered in connection with the whole economy.

Nutrition and Development

10. The problem of raising the nutritional levels of consumers in all lands who before the war were living below an adequate health standard has been before us throughout our deliberations. We have considered on the one hand the case of those in economically advanced countries who were prevented by poverty, unemployment, and insecurity, from making their demand effective. The solution of their problem, on which some nations have made great strides during and since the war, lies in the maintenance of consuming power through policies for full employment and social security, and through the development of welfare food services. On the other hand, we have had the much greater problem of increasing the food consumption of the mass of the population in less developed countries. The solution here lies in urgent and radical measures for raising output and purchasing power within these areas themselves. Means must be found to expand not merely agriculture but the industries which will be required to absorb surplus agricultural workers and to provide the goods to pay for imports.

11. The underdeveloped countries cannot accomplish this unaided. They need raw materials, machinery, machine tools, construction and transportation equipment. They need the assistance of technical experts. Some of them need food. For some time to come most of them will not be in a position to pay for all they need to import. Hence they also require financial aid, probably on a substantial scale. This would be an occasion for international investment and would offer new markets to industrial countries. The judicious development of productive capacity would enable underdeveloped countries later to export goods in payment for their increased imports. Moreover the advanced countries will stand in need of such new market opportunities. For while they can find some outlet for their increasing production of consumer goods in a rising standard of living for the workers of their own and other advanced countries, in the long run the prospects of maintaining adequate demand for the still growing industrial capacity of the world depend on new, expanding and effective markets in the less developed areas.

12. This is particularly true in the field of capital development which was the mainstay of the nineteenth century industrial system. In the nineteenth century, industry in the advanced countries maintained itself by capital development at home and abroad as economic frontiers were pushed still further across new continents and as the growth of population at home provided a continually rising consumer demand. During this century the greatest advance in history in standards of living and human well-being was achieved. In the twentieth century the field for the opening up of new areas is more restricted and, at least in the advanced countries, the growth of population has slowed down almost to a standstill. It is generally agreed that the twentieth century must witness the development of hitherto less industrialized areas and the improvement of living standards by utilizing the vastly superior techniques of production and the great advances in scientific knowledge.

13. But the twentieth century problem is more difficult. Development in the nineteenth century took the form of opening up the food and raw material resources of new, and in the main sparsely populated, countries to supply the needs of a rapidly expanding population in the European countries. These

resources then provided the means by which the new countries could pay for their imports from the old. In the twentieth century the resources must be developed primarily to build up desirable economies within heavily populated countries. Consequently, it will be very difficult to develop means of international payment. The solution of this problem so far as industry is concerned has not been within the terms of reference of our Commission, but we felt that the proposals we have made for agricultural development will be an important contribution to the wider problem.

Need for International Cooperation

14. To achieve the kind of economic expansion we envisage in this Report, it will be necessary to ensure the maximum international cooperation and consultation. First, no one nation could undertake the task of agricultural and industrial development over such great areas of the earth, even if that were desirable. It can be done only by a combined use of material resources as well as of knowledge and technical skills. Secondly, the age of great new colonial developments by single nations is past. Most important of all, for several reasons and particularly, in the last few years, to mobilize national resources for war, governments have increasingly taken over responsibility for the direction of economic affairs. Today, the difficulty of obtaining foreign exchange in many countries is likely to extend the period of state control over international trading as well as international capital movements. Some governments license importers or exporters, and in a considerable number of cases the government itself takes over the foreign trade in important products.

15. In the domain of agriculture many governments have undertaken to support farm prices or incomes for two or more years ahead and in some countries they are committed to specific production plans. To fulfil these pledges, they endeavour to keep agriculture insulated from the outside world by means of import duties, export subsidies, and other similar measures. In consequence, there are today large differences between the prices in different countries for certain staples such as wheat and sugar. For several staple foodstuffs there is no price freely arrived at on the world market, but rather a series of prices negotiated between two or more governments. Government intervention in international trade to regulate or negotiate terms and conditions of exchange must now be recognized as a feature of the world's economy.

16. Such developments have taken place for obvious reasons. The dangers inherent in them are equally evident both because of the dislocations inherited from two World Wars and because in the very process of constructing a new world economy and of developing the hitherto backward areas, there will be many opportunities of friction and many potential conflicts of interests. Old channels of trade will be diverted or even closed. Unless provision is made for full and frequent consultation among governments on specific economic problems, the chances of steering a successful course amidst all these difficulties will be slender.

17. The peoples are therefore confronted with two necessities—first, economic expansion, and secondly, the organization of that expansion through cooperation between governments. In all the discussions of this Preparatory Commission we have been aware of the paramount importance of the objective of economic expansion and we have been impressed with the growing need for even more consultation between governments than is provided for under the United Nations agencies already brought into existence and for greater coordination between these agencies. We are mindful of the fact that much is now being done to eliminate the trade restrictions and other causes that

led to the disastrous conditions of the interwar period, and we are hopeful that this will lead to an increase in trade, to full employment and to an expanding economy, all of which are essential to the welfare of the peoples of the world. We are agreed, however, that notwithstanding all that may be achieved in this respect the need for consultation and agreement among nations on many matters relating to food and agriculture will continue. In particular, we believe that in respect of certain basic commodities that enter world trade, conditions will arise that will make intergovernmental consultation and agreement inevitable.

Conclusions

18. It may be useful in conclusion to relate the principles which have emerged in this Chapter to the objectives of policy agreed upon at Copenhagen:

First, in order to obtain diets on health standards for all people, there needs to be a great and more orderly expansion of agricultural output. Agricultural production can be expanded only if consumption is certain to be expanded too. Otherwise the expanded production merely results in a burdensome surplus, depressing prices far below any level which could be described as fair to producers and consumers alike.

Secondly, as long as undernourished people exist, essential food that could be made available for human consumption should never be destroyed. All nations of the world should make every effort, individually or by agreement, to avoid the necessity of curtailing production.

Thirdly, in the less developed regions agricultural expansion must be accompanied by industrial expansion—to manufacture farm equipment, to absorb surplus farm workers, to produce consumption goods and goods for export, and to raise the level of living and the purchasing power of both agricultural and non-agricultural producers.

Fourthly, this implies large scale provision of capital, much of which must come from outside the countries especially requiring development.

Fifthly, the supply of such materials and equipment, including in certain cases food, is likely to prove a hopeful and possibly in the long-run, the chief means of maintaining a high level of employment in the industrial countries and reasonable stability of agricultural prices provided that in due course a return flow of useful products can be assured.

Sixthly, having regard to the role which governments now play in the economic field and the dangers of unilateral action, corresponding inter-governmental cooperation is called for in respect to both national and international programmes.

19. Thus the two problems presented to the Preparatory Commission—how to expand agricultural production to meet the world's needs, and how to stabilize agricultural prices—merge in the crucial problem of how to expand consumption and purchasing power. And although agriculture has its own peculiar characteristics and is different in vital ways from industry, its problems are indissolubly linked with those of industry—that is, of the economy as a whole. They cannot be dealt with effectively on any other basis.

20. What we have to say in this Report may be grouped under five main heads:

Chapter 2 takes up the development of agricultural and nutritional programmes, since the primary step toward the objectives of the World Food Proposals must be a rapid increase in the world's food production and a better distribution of the supply to those in need.

In Chapter 3, certain problems of industrialization and general economic development are discussed in relation to purchasing power for food, and to the employment of labour surplus in agriculture.

Chapter 4 deals with the financing of development programmes and the extent to which existing international agencies are likely to prove adequate for that purpose.

Chapter 5 considers the stabilization of agricultural prices and certain means of expanding international trade in agricultural products. It examines the contribution that might be made by international commodity arrangements.

In Chapter 6 the principles which have emerged in Chapter 5 are applied to the particular circumstances of certain agricultural products and suggestions are made as to the type of action that might be applicable in each case.

Finally, in Chapter 7 we stress the need for regular international consultation among governments and make recommendations as to how national production and nutrition programmes and the work of agricultural commodity councils can be reviewed and coordinated.

CHAPTER 2. AGRICULTURAL AND NUTRITIONAL PROGRAMMES

1. The World Food Survey has shown that more than half the population of the world is normally malnourished, has a diet equivalent to less than 2,250 calories daily at a retail level. Even in the most favourably situated countries at least a third of the population had, prior to the war, an inadequate diet, particularly when judged by mineral and vitamin requirements. The first task to be considered is what steps can be taken to increase the supply of food for improving the nutrition of such malnourished countries and groups.

2. In the more advanced countries, the major problem is to improve the quality of the food supply by increasing the proportion of protective foods in the diet and to achieve a better distribution so as to ensure that vulnerable groups obtain the particular foods they need. In the less developed countries, the whole volume of the food supply has to be substantially increased—especially the protective foods, but in many cases the energy foods too. This is a gigantic task which involves a large increase in the agricultural output of those countries, and, where food imports may be needed, a large increase in the volume of appropriate exports in order to obtain the necessary foreign exchange. In this Chapter we deal with the agricultural and nutritional aspects of these tasks. The general economic development and industrialization which will be necessary is dealt with in the next Chapter.

3. The World Food Survey indicates that in the less developed countries, in order to reach intermediate nutritional targets with a calorie intake of some 2,600 calories per head daily, by 1960 the food supply would need to be increased by 90 per cent. above prewar (of which 55 per cent. would be accounted for by improvement in the diet, and 35 per cent. by population growth since the period 1935-39). By 1970 the food supply would need to be 110 per cent. above prewar. Whether or not such a doubling of food supply is practicable by this date, i.e. within less than twenty-five years, it is clear that, especially in the less developed countries, only an agricultural revolution can bring reality to this objective.

4. In some less developed areas farming is still in the primitive stage and completely unmechanized. The production revolution which has characterized twentieth century agriculture in some advanced countries is precluded in the poorer countries by such factors as a smallness of holdings, unimproved varieties of crops and livestock, archaic or ill-adapted systems of land tenure

and rural organization, lack of capital, poor health, inadequate farm implements and excessive density of rural populations. In many of these countries "one farm family manages to produce only enough to feed itself and half another family," whereas in some advanced countries "one farm family feeds itself and four other families at a comparatively high nutritional level."* The output of food per man is ten times greater in the latter than in the former countries.

5. The excellent research done in many poorer countries demonstrates that modern science and its application is not a monopoly of advanced countries. In experimental herds in India the annual yield of milk per cow has in 20 years been raised from the national average of 1,500 lbs. to 6,000 lbs. This change has been brought about very largely by improved feeding and by the selection of the better animals available from the native stock. In Java the improved sugarcane variety P.O.J. 2878 has increased potential yields per unit of area by 50 per cent. Varieties of rice which can on ordinary farms yield two or three times as much as the commonly used types have been bred by plant geneticists. These are examples of what can be done for livestock and plants. Besides this, research is making increasingly available knowledge, methods, and techniques which will enable areas to be brought into use that were hitherto too unfavourable for settlement and food production. The application of these findings could bring very large additional areas of land into production in Asia, Africa, and South America.

6. The Commission therefore wishes to re-emphasize the importance which the Quebec and Copenhagen Conferences placed on the need for research and its practical application to agricultural production. But it is also convinced that (a) education, (b) rural development programmes and (c) industrialization are equally essential if the peoples of less developed areas are, in the twentieth century, substantially to enjoy better standards of diet, health, and living. Better education is needed to enable farm people and consumers to reap, on their farms and in their homes, the fruits of modern science and technology. Rural development programmes including such measures as revised systems of land tenure and land utilization, the extension of cultivation to suitable unused land by large-scale irrigation projects and similar public works, the improvement of roads and communications and the expansion or modernization of processing and marketing facilities must, as stressed at Quebec and Copenhagen, also be an integral part of the drive for more and better food. Industrialization, which is discussed in Chapter 3, is needed not only to draw excess population from the land, raise productivity and the general standard of living, but also to manufacture fertilizers, agricultural chemicals, machinery, and general farm requirements to supplement other imports needed to expand farm production.

7. It is thus apparent, especially in the less developed areas where the greater part of the population depends directly on the land, that not only should the several parts of each national agricultural development programme be closely integrated but also that the farm programme must itself be an integral part of a dynamic and progressive policy embracing the whole national economy. India and other countries have already formulated comprehensive programmes of this type with five and ten-year objectives, and we commend this approach to other governments faced with comparable problems.

8. While F.A.O. and other international agencies such as the Economic and Social Council and the International Bank for Reconstruction and Development can, on request, help governments with such programmes and policies, the responsibility for their initiation and execution clearly lies with the governments of individual Member nations. They alone can provide both the

*World Food Survey, Washington, 5 July, 1946, p. 24.

driving force and the direction. Accordingly in this Chapter we consider (a) how national governments can place themselves in a better position to expand food production and develop nutrition programmes, (b) how F.A.O. can help governments to help themselves in formulating and carrying out such policies, and (c) what steps are necessary at the international level to coordinate the national food and agricultural programmes which many nations are already making or which we hope may emerge as a result of our recommendations.

A. Activities of National Governments

9. It is clear from the foregoing that the first task of governments, especially in the nutritionally disadvantaged countries, is to frame overall programmes for the expansion of essential agricultural production. Many such governments are confronted with a very numerous agricultural population occupying extremely small farms and lacking equipment, capital, and technical knowledge. Programmes have to be framed in practical terms to meet the needs of these people.

10. They should include first and foremost the provision of education and information so that the people can understand and cooperate in the various projects for technical improvement. They should include instruction in the production of nutritive foodstuffs and essential protective foods for the farm families themselves. Such programmes would also make provision for better quality seeds, certain useful pesticides, fertilizers, raising the quality, and in some cases the quantity, of farm livestock, suitable handtools and other farm implements. These programmes involve getting the necessary equipment and materials produced and in most cases presuppose new development of industries such as we discuss in Chapter 3. They imply improved credit facilities for farmers. They may require changes in land utilization. Moreover, in many regions a large number of the new farm practices cannot be adopted until the size of the farm is somewhat increased, or land tenure systems improved. In addition to this, the development programmes usually need to comprise measures for improving transportation, especially from farm to market, and the creation or betterment of market facilities. Further, to be fully effective, the programmes must reach through to the food consumption of the non-agricultural population and provide widespread nutritional education. Among the nutritional programmes developed in recent years in the advanced countries, there are several types which could serve as guides when programmes are being framed for the growing industrial population of the needs countries.

11. This does not purport to be an exhaustive list of the elements of development programmes. A comprehensive listing can be found in the Resolutions of the Quebec and Copenhagen Conferences. But what has been said may sufficiently indicate the range and variety of the tasks to be undertaken if the necessary revolutionary changes in agriculture are to be accomplished. We recommend to governments of all food deficit countries the early formulation of coordinated agricultural and nutritional programmes where such do not already exist.

Administrative Machinery

12. To establish and execute programmes, adequate administrative machinery is necessary at both the national and local levels. In many needs countries this administrative machinery requires strengthening, or has yet to be created. Each Member nation of F.A.O., to the extent that it has not already done so, should establish an administrative unit or units responsible for agriculture, food and nutrition. These units should administer (a) programmes of agricultural and nutritional improvement, (b) the promotion and

coordination of extension and advisory services and other instruction for farmers, fishermen, forestry workers, and housewives in respect of agriculture and food problems, (c) the establishment and supervision of public research activities, (d) the collection and dissemination of scientific and technical information, (e) the provision of special assistance to small farmers and agricultural workers through controlled and supervised credit and other measures, and (f) the collection of national statistics and the coordination of local and regional statistics.

Foreign Experience

13. Nations have much to gain from developing scientific technical and other contacts with foreign countries. Improvement of agriculture can often be speeded by sending missions abroad to study particular methods and practices. Research workers, technical officers, and administrators can widen their experience by foreign study. Many countries have also found it advantageous to send agricultural attaches or other agricultural officers to countries of special significance to them. Further expansion of this system of agricultural attaches might be helpful to many other countries. In these various ways the countries embarking on development programmes can discover valuable means of self-help. The actual arrangements will normally be made by the countries themselves. But F.A.O. should keep itself informed of what is being done and may in some cases be able to provide services as a clearing house of information regarding facilities for such foreign visits and training.

14. The Commission recommends that Member nations take opportunities of sending such persons abroad and that governments of more advanced countries should extend pertinent facilities and courtesies including the provision of scholarships or special courses or other training to the visiting individuals or mission. We also recommend that Member nations work out arrangements between their research institutes, laboratories and government departments and corresponding agencies in other countries for the exchange of professional workers for a specified period of time. Further, we recommend that Member nations with non-self-governing territories under their jurisdiction should, where appropriate, encourage activities within such territories corresponding to those referred to in paragraphs 9-14.

F.A.O. National Committees

15. In order that governments may cooperate effectively with F.A.O., we recommend as a matter of urgency the setting up of National F.A.O. Committees where such do not already exist. These Committees serve as a link between their country and F.A.O. While certain matters such as proposals involving national commitments should normally be communicated by F.A.O. to governments through foreign ministries, matters concerning agricultural and nutritional policies should be communicated through the F.A.O. National Committee unless otherwise provided. Arrangements should also be made by which communications on routine matters can take place directly between the unit in F.A.O. and the proper corresponding unit in the national government.

16. It is also important that each Member nation supply promptly to F.A.O. copies of all significant current reports and publications relating to food and agriculture. If F.A.O. is to serve nations effectively, the nations in turn must answer promptly and fully requests from F.A.O. for information. In addition to agreeing on channels for communication, the government of each Member nation should see that appropriate measures are taken to ensure prompt replies to such requests.

17. The development of these procedures and the adoption of the various recommendations made in this Chapter concerning national action should put governments in a stronger position to carry through the nutritional and agricultural programmes envisaged in the Copenhagen objectives. It is recommended that five years from now each Member nation report in detail to F.A.O. the progress it has made in and the plans contemplated for carrying out the recommendations of paragraphs 9-17. The request for such a report might well be included by the Director-General in his suggestions for a periodic report (under Article XI of F.A.O.'s Constitution) at that time.

B. Machinery and Functions of F.A.O.

18. Since F.A.O. is the United Nations agency responsible for assisting governments in the improvement of agriculture and nutrition, and the welfare of rural people, the Commission has made some enquiries as to F.A.O.'s programme of work and as to how well this agency is equipped to carry out its functions. The Commission heard from the Director-General and other officers of F.A.O. a description of the present position regarding staff, organization and programme. An F.A.O. statement on these matters is included as an appendix to this Report for the convenience of readers not familiar with the Organization. The following observations assume a general understanding of F.A.O.'s structure and activities.

19. The Commission feels that there are grounds for being gratified at the progress that has been made under difficult conditions in commencing important work, for example, the preparation of the World Food Survey, and realizes that more would have been accomplished in several fields if the corresponding F.A.O. Divisions had been established for a longer period. The Commission attaches the highest importance to the statistical work of F.A.O., which is basic to so many of its activities. The Commission has been informed of the steps which have been taken to develop this work since the Economics and Statistics Division was established, and is glad to learn that F.A.O. plans to publish a Yearbook of Agricultural Statistics for 1947, that preparatory steps have been taken in respect of the World Agriculture Census for 1950, and that suggestions for reports from governments will be distributed in time for the reports to be considered at the next Annual Session of the F.A.O. Conference. We recommend at the end of this Chapter and in more detail in Chapter 7 that these reports from governments be concerned specifically with national agricultural and nutritional programmes and form the basic material for the annual programme review which we are proposing.

20. As we have noted, a satisfactory basis of rural life is essential to agricultural development programmes. The Commission has heard with pleasure the Director-General's statement that a survey of experience in cooperative activities is being given high priority in F.A.O.'s work, and trusts that it will continue to be given such priority, and that it will give special attention to the needs of tropical and sub-tropical countries. It recommends that early attention be given to other aspects of rural life, notably labour standards and working conditions, rural housing, health services, and other elements in the standard of living. In this work, collaboration with the International Labour Organization should be sought. Attention should be given also to population studies, the different rates of population growth in rural and urban areas, and the sociological problems of the rural-urban population balance. (Collaboration here should be sought with the Population Commission of the Economic and Social Council.) All these activities should be stimulated through early attention to the rural welfare work contemplated at the Copenhagen Conference.

21. In view of the importance we attach to education, extension and advisory services, we suggest that F.A.O. establish a unit or units staffed with experts well qualified to aid individual countries in this field. We further suggest that F.A.O. as soon as possible collect and make available information on educational methods which have been found most effective in various kinds of countries.

22. In order that F.A.O. effectively assist the personnel interchanges which we have recommended under National Activities, and since such aid involves knowledge of regions where conditions are most comparable to those of a given country, we recommend that F.A.O. should build up a central index of the types of farming regions of Member countries, together with a central subject index of institutions and professional workers in order to facilitate contact between Member nations with similar agricultural economies and problems. We further recommend that F.A.O. should act as a clearing house in these matters and should prepare a list of scholarships, fellowships, and personnel exchange opportunities in the various countries.

23. We turn lastly to the question of surveys and studies. The Annual Conference and the Advisory Committees have recommended that F.A.O. conduct a large number of international surveys so that the pooling of experience in these matters will give a fuller picture than any one country can get for itself. While some surveys may be urgently necessary, the Commission feels that the initiation of a limited number of comparative studies which need not be worldwide in scope, would be of great value to Member nations. Since many of the surveys and studies which we propose belong to F.A.O. in the field of agricultural production, we are confident that the early appointment of a Director to the Agricultural Division and the recruitment of more staff for it will expedite this work. In many cases these surveys or comparative studies can be handled by an analysis or summary of existing technical literature or by correspondence. In other cases a team of experts may need to be sent to visit representative countries or areas in a given region, consult with authorities in each country visited, and collect first-hand the experience or materials involved.

24. The Commission recognizes that having regard to the tasks which have been given to F.A.O. by the Quebec and Copenhagen Conferences and the additional ones which are recommended in this Report, it will almost certainly be necessary to postpone or curtail some of the more ambitious projects of study and investigation recommended at Quebec and Copenhagen. It is suggested that the Director-General examine this situation, and consider preparing for consideration at the next Annual F.A.O. Conference a list of those among the previous recommendations which should receive early attention, and a list of the remainder which could be postponed, without impeding the general work of F.A.O., in order to enable him to concentrate more effectively on the achievement of the Copenhagen objectives. A list of subjects which the underdeveloped countries have indicated are of special interest to them is attached as an appendix at the end of the Report.

Annual Review of National Programmes

25. Increasingly, the programmes of one country are coming to have important repercussions on the economies of other countries, and some provision for mutual consultation and co-ordination has become necessary in order to obviate clashes of interest. This is particularly the case in the advanced countries and in those having a large stake in the export or import of agricultural products. But any widespread adoption of the recommendations made in this Chapter regarding agricultural and nutritional programmes will cause a still larger number of countries to have an interest in such co-ordination.

Accordingly, we recommend that all such programmes should be reviewed annually at the F.A.O. Conference.

26. We defer till Chapter 7 a full discussion of the form which such international consultation might take and of the functions such an annual review conference should perform. It is sufficient here to say that the main task would be to bring into perspective the facts concerning food supplies in all parts of the world, to analyze the programmes of individual countries and, where appropriate, to reach agreement on production objectives for the future. The Commission is convinced that governments would find such consultations extremely valuable and in the light of what emerged, many of them might find it mutually advantageous to reconsider, and in some respects adjust their future programmes.

27. The annual review by the F.A.O. Conference would also have other functions which will be elaborated in Chapter 7. It will have the responsibility of reviewing the work of the World Food Council which we shall be recommending, and the activities of the individual councils administering commodity agreements or arrangements. It will also consider and approve programmes for distribution of agricultural commodities at special prices in connection with recognized nutritional programmes. By combining these various review activities in one agency and at one regular annual meeting, it seems to us possible to ensure the most effective measure of consultation and co-ordination regarding development programmes. With some machinery of this kind we could feel confident that F.A.O.'s Member governments would be able to do their utmost year by year to forward the expansion of agriculture and the provision of adequate diets for their peoples.

CHAPTER 3. INDUSTRY AND AGRICULTURE

1. The expansion of agriculture stressed in the preceding chapter demands a parallel expansion in industry, transportation, and in other parts of the economic system. To quote the first Resolution of the Hot Springs Conference:

“ It is useless to produce more food unless men and nations provide the markets to absorb it. There must be an expansion of the whole world economy to provide the purchasing power sufficient to maintain an adequate diet for all.”

At present in most of the less developed countries the non-agricultural population does not earn enough to be able to afford adequate food even if such were available. A striking example of this is cited in the Government of India's Famine Inquiry Report, 1945.

“ Before the war it was reckoned that the cost of a well-balanced diet containing enough protective foods was about 5 rupees per adult per month—that is to say, Rs. 20 for a family containing the equivalent of four adult males. The cost of an ill-balanced diet mainly composed of rice or another cereal sufficient in quantity but deficient in quality was about Rs. 10 for the same size. . . . Unskilled urban workers often earned Rs. 10 a month or less.”

2. The buying power of the non-agricultural population must rise at a speed which matches the increase in food production so that food can be paid for at reasonable prices. Otherwise the increased agricultural output will begin to pile up unsold or to drive prices down to crisis levels. To increase the purchasing power of the non-agricultural workers, there need to be more industries and more efficient industrial equipment. Moreover, if the productivity of the non-agricultural worker can rise, more goods will be available to reward the efforts and raise the real income and standard of living of the farm population.

3. There may be certain countries in which the natural resources or other special circumstances will suggest advantage in concentrating more particularly on agricultural development and importing needed non-agricultural products. But it will be the exception rather than the rule. Generally speaking, at least in densely populated areas, industry should expand rather faster than agriculture; both because it is common experience that as family income rises a decreasing proportion goes to buy food and, secondly, because as modern methods of farming are brought in, fewer and fewer workers will find occupations on the land. Indeed, in many undeveloped agrarian regions, such as in Eastern Europe and large parts of Asia, farms have so few acres per family, and so many mouths to feed per acre, that they have been unable to buy and use improved machinery. Also they cannot spare land to grow forage or feed to maintain the efficiency of livestock and to increase the output of livestock products needed for more adequate diets and higher income per family. In such regions, a partial shift of this surplus or underemployed labour from farms to non-farm employment is a prerequisite to any sound programme of agricultural improvement. This would be more urgent in countries where the population requires only seasonal labour, so there is a large surplus of underemployed labour at many seasons which could be used for part-time industrial production.

4. If only for these reasons, importance is to be attached to decentralization of the new industries. It happened that the process of industrialization in the nineteenth century was also a process of urbanization. That was almost inevitable when steam raised by coal was virtually the only source of industrial power. But with the development of modern transport and of electricity, particularly from waterpower, the pressure toward urbanization is less. We would stress the importance, when plans for industrialization are being formed, of aiming at as high a degree of decentralization as is compatible with the economic requirements of the country. This will not only have the advantage of minimizing the disturbance to the structure of rural communities, but will also minimize the risk of the detriment to health which too often follows on urbanization of poor populations. It will also provide a readier solution of the problems referred to in the previous paragraph.

5. In some underdeveloped regions there are possibilities for the development of new simple industries with small capital investment. Such industries, using locally-available raw materials to turn out simple industrial products needed for local consumption, can mitigate overcrowding in agriculture, and while they do not compete in plant efficiency with large-scale enterprises, they often can supply the needs of the local population in industrial products at prices lower than they can be imported from abroad and transported to remote areas.

6. Much progress has been made in the development of such simple industries in several countries. These include in India the encouragement of handicraft or cottage industries, such as hand spinning, weaving, knitting, and pottery making, and the development of simple machines which increase greatly the efficiency of the home operations with relatively little investment. The recent development of cooperative industries in China, on a decentralized village basis, is another example. Another recent development is the Agricultural Industry Service of the Agricultural Rehabilitation Division of U.N.R.R.A. which has been developing plans and specifications for such simple industries, and has been training and supplying advisory engineers to countries to help build and expand such plants, and to train local technicians to carry on the work. Such plants represent a significant advance, in terms of productivity and standard of living of the community, over the primitive methods previously in use, and do make a start toward providing

more local employment based on local resources and often toward providing part-time employment for farmers in slack seasons. They enable underdeveloped regions to take the first steps toward industrial development, aid farm workers to acquire industrial skills and experience, and they also provide the basis for the eventual development of the types of industry which are economically and socially most efficient—large, medium-scale, and small. The Commission particularly commends to governments this type of local development. The Commission further recommends that F.A.O. examine past national and international measures to aid the development of small and low-cost decentralized industries and rural handicrafts to provide more employment to underemployed rural populations, and determine in consultation with I.L.O., how far F.A.O. can go in developing a section or service to aid member nations in organizing national services of this type, at least until such time as some other international agency is in position to provide such service. In this connection F.A.O. might well consider continuing for the time being a nucleus of the Agricultural Industry Service of the Agricultural Rehabilitation Division of U.N.R.R.A., and making its services available to all member countries who wish to make use of them.

National Development Policies

7. The initiative for national development is increasingly being taken over by national governments. In the past the development of industry in colonial regions has often been discouraged, leading to even greater emphasis on monoculture and on the production of raw materials for export from such colonial regions. In the 20th century, however, developments have tended in the direction of greater agricultural and industrial diversity. Moreover, in several less developed countries governments themselves are sponsoring programmes of all round development of resources. An early and notable example was the U.S.S.R. which between the two wars built up a powerful industrial potential and a considerable output of important raw materials. Recently the Government of India announced a comprehensive plan of industrial development. Even in some of the more developed but war-devastated countries long-range programmes have been laid down for industrial rehabilitation and expansion. Moreover if our recommendations for agricultural expansion are to be implemented, governments in all countries will be encouraging economic development in the widest sense, including plans for the progressive improvement of labour standards and the purchasing power of industrial workers and for general and vocational education. Further, while we have the services both technical and other which public agencies can perform for agriculture, we would equally stress the importance of sound administrative arrangements, particularly in regard to financial and physical matters, as a basis for successful industrialization.

8. The Commission has already commended to the attention of governments certain advantages of small local industries. There is one practical step which might be taken at an early date by governments producing or exporting raw materials. Where agriculture and industry at present lack technical development, the governments concerned should create services and agencies capable of assisting the production, processing, and distribution of the products of these areas and by appropriate legislation or other means should establish grades and production standards for both domestic and foreign markets. Further, there are certain types of industrial facilities which are closely related to agriculture, and are an essential part of agricultural development programmes. These include facilities for the production of agricultural machinery and fertilizers, for processing agricultural raw materials, and for storing and transporting agricultural products. Where governments are

developing the agricultural programmes which we have stressed in Chapter 2, they should pay due regard to the development of such ancillary and agriculturally based industries and should consider what international help they will require.

International Assistance

9. For the less developed countries it is clear that, in respect of the development of industries and transportation, they may need services similar to those that F.A.O. will provide in respect to food and agriculture. We understand that this matter is under consideration by the Economic and Social Council. Whatever arrangements may be worked out, the provision of information and advice on industrialization and general economic development is an important adjunct to our recommendation in respect of food and agriculture. We urge that in the arrangements made by the Economic and Social Council full recognition be given to the vital interest of agriculture in the progress of industry, and to the danger of serious maladjustment if progress is too slow on the industrial side.

10. In this Chapter considerable emphasis has been laid upon the need for a wise balance between agricultural and industrial development. This balance has to be evolved within each territory and it is for the national governments to consider how best they may keep this problem under review. But where a national government takes the step of seeking international advice or aid, the request may concern not just one particular field but rather economic development as a whole. The government may request a mission to study the general exploitation of its resources, both agricultural and industrial. In our opinion, when requests are of such a character they should go to the United Nations, which would then consult with F.A.O. and with the other interested specialized inter-governmental agencies with a view to building up a joint mission. F.A.O. should take the necessary steps to be able to co-operate fully in this type of work with the United Nations and other inter-governmental agencies.

11. In considering projects for industrial development of the less advanced countries, a fact which was noted by the Preparatory Committee of the United Nations Conference on Trade and Employment has to be borne in mind, namely,

“as the less developed countries progressively undertake the production of a wider range of commodities for their domestic markets, it is likely that the more highly developed economies, which formerly supplied the markets of the less developed countries, will be faced with the problems of adapting their economies to the changed circumstances.” (Chapter 2, Section B.I.)

Another fact which has equally to be borne in mind is that generally speaking, economic projects in undeveloped countries must have an economic basis and a reasonable prospect of economic success in due course. Unless such projects are conceived upon this basis, so far from achieving the object in view, all that they would accomplish would be on the one hand, to saddle the backward country with an inefficient industry requiring a permanent apparatus of special government aid, quotas or tariffs, and on the other hand a dislocation of trade and employment in the more developed countries. There are, however, great opportunities for industrial developments in backward countries which would have a reasonable prospect of economic success. Such industries must be developed. Where their development necessitates readjustment in advanced countries which formerly were the suppliers, then these readjustments will have to be made. Experience has shown that wise industrial development in agricultural countries leads to an increase in their pur-

chasing power which accrues to the benefit of the highly industrialized countries, although it may cause a change in the commodities supplied. This problem of selecting industries with reasonable prospects of economic success and of minimizing the dislocation in existing channels of trade is one which should occupy the most careful attention of the United Nations and any specialized agencies concerned with economic development.

CHAPTER 4. FINANCING OF DEVELOPMENT

1. The execution of development programmes, whether in agriculture or in industry, requires a wise mobilization of financial resources. One aspect is to organize the internal finances of the development country to make the maximum amount of capital available for development purposes. The other aspect is to promote and organize international lending in ways which provide the most effective help to the needs countries. There can be no doubt that if the programmes outlined in the previous two chapters are to be effective, very large sums of money will be required over a considerable period of years, and that special problems will have to be faced both of national and international financing.

2. It has been put to us that the national resources of countries standing in need of development, together with the existing international financial facilities, may not cover all the requirements, and that development may be held up because certain essential parts of the programme cannot be financed, and we have paid special attention to this question.

Types and Costs of Development Activities

3. In order to form some concrete idea of the kinds of need which are likely to arise, we have discussed a number of aspects of development programmes and, while it would be quite impossible to draw up a comprehensive list of all the types of activity, the following brief selected list may serve to illustrate the variety involved:

A. Industrial Development Projects

(a) Importing equipment essential to manufacturers domestically, supplies of fertilizers, farm machinery, or other materials or equipment needed for development programmes.

(b) Building large-scale projects for industrial production or mass processing and merchandising.

B. Domestic Construction

(a) Conducting geologic and other field surveys, and preparing detailed engineering plans and specification, for large-scale construction, water-control, or hydroelectric projects.

(b) Improving transportation and communication facilities, both national and local.

(c) Development of warehousing, cold storage and refrigerated transport for perishable products.

(d) Building large-scale irrigation, drainage, flood control, or hydroelectric projects, and electrical distribution facilities.

(e) Reclamation and development of areas of unused or inadequately used land.

C. Importation of Supplies for Farm Production

(a) Importation of supplies of fertilizers, farm machinery, tractors, work stock, pesticides, trawlers, nets, refrigerating equipment, or other agricultural

materials or equipment essential to initiate improvement or development programmes.

(b) Enlargement of facilities for agricultural credit for agricultural production and marketing and for importing goods needed by farmers.

D. Measures for Small-Scale Productive Facilities

(a) Building irrigation works, water storage basins, diversion dams, or farm or village agricultural processing or warehousing plants or equipment, largely with local labour.

(b) Development of rural industrial plants utilizing agricultural raw materials or producing simple equipment needed by farmers.

E. Measures for Education, Research and Welfare

(a) Employment of foreign personnel for shorter or longer periods, to initiate or reorganize domestic agricultural and educational institutions.

(b) Sending students, professional workers, or missions abroad for periods of study in more developed countries.

(c) Expanding educational and research facilities, including the construction of suitable laboratories or classrooms, restoring or providing libraries, laboratory materials, fixtures, and equipment, and scientific equipment.

(d) Expanding activities for health and rural welfare, including rural community centres, clinics and hospitals, and medical equipment.

We do not attempt to range these items in respect of the costs likely to be required under each, nor as to the proportion between domestic and foreign capital. The situation will vary according to the circumstances of each country. In many cases, it will be necessary to make special provision for food supplies, housing, sanitation, medical and educational facilities for workers engaged on development projects.

4. Nor do we think it possible to make any accurate estimate of the total capital cost of the programmes of the less developed countries over any given period. So much depends on the speed at which development can proceed and on the extent to which new industries themselves provide out of their output the capital for further industrial growth. Nevertheless there are indications which suggest that over a period of years the sums required to carry out development on the scale contemplated in the two preceding chapters will be very large.

5. As to agricultural improvements which we have discussed in Chapter 2, even a modest expenditure per farm would require large sums in view of the many millions of farms in the underdeveloped countries which stand in need of modernization.* Moreover, further settlement and the establishment of farms in new areas would create additional investment requirements.

6. As to the industrial development discussed in Chapter 3, this has to be considered against the background of the thousand million people in the less developed countries; perhaps something like 400 million constitute the labour force, and of these only 100 million are in non-agricultural occupations. It might well be desirable over a period of time to transfer 100 million out of agriculture into other jobs in order to improve the balance between agriculture and industry. In addition, provision will have to be made for the natural increase in population. Together these two tasks would require rapid expansion of non-agricultural employment.

*Development programmes in India and Greece indicate that an expenditure not less than \$500 per farm would be required for a modest start toward farm modernization under their conditions.

7. Certain estimates have been made of the amount of new capital required to provide industrial employment to one adult male worker and although there is naturally great variation between industries and between countries, the average figure would appear to be not less than \$1,000 per worker.

8. In the light of this and the size of the populations involved, the programmes we have envisaged of increasing and diversifying productive employment in developed countries would clearly involve capital investment on a scale never previously attempted.

9. Such are the dimensions of the problem. Its solution is embarrassed by the fact of a changing conception of the object, scope, and scale of development. Fundamentally the change has been in the idea of where initiative should lie and where the reward should accrue. Most of the world has moved away from the idea that initiative and reward fall primarily in the domain of private enterprise in the rich and developed countries, and has moved towards acceptance of the view that both should lie primarily within the domain of the country which is to be developed.

10. These changes are emerging at a time when the scale of expenditure envisaged has greatly increased, and when, concurrently, some of the old and tried methods of financing are at least temporarily discredited as a result of the experiences of investors in foreign governments, state, and public utility securities during the past twenty-five years. This has been a period of such dislocation in the international capital market, with so many strains and stresses, that it is difficult to determine what new types of relationship may emerge. In any case there is appearing a marked change in (1) national responsibility for financing, and (2) the approach to the organization of international lending. Largely, therefore, the problem is to discover new or adapt old monetary devices appropriate to the present conception of development.

National Finance

11. From this point of view it is fortunate that a new sense of the national part and share in the development effort has begun to emerge in development countries. A number of development countries themselves recognize that national self-help is capable of very great achievement with only small recourse (or even no recourse) to foreign borrowing.

12. The first step in development must be to lay a firm foundation of domestic finance within the country concerned, including both the finances of the state and the banking and commercial credit system. The Commission wishes to lay particular emphasis upon this point which appears to be fundamental to successful development. Without such a foundation there will be no prospect of mobilizing the internal effort on which the greatest part of any development project must depend. Also there will be small chance of borrowing the foreign funds which may be required, because there could be no adequate assurance of repayment in the absence of a strong structure of internal finance. Moreover, if the improbable were to happen and foreign finance were to be forthcoming for the whole effort, there would be little chance of the development country reaping the fruits of its newly developed capacity. With the coming of new ideas on domestic monetary management, governments have both been presented with a more flexible and more abundant source of internal finance, and at the same time faced with balance of payments and other risks and administrative problems which did not arise under the old gold standard rules. In any far reaching scheme for national development, unless the introduction and establishment of a wise system of internal finance, to cover taxation, borrowing and credit distribution, is recognized as an essential and preliminary part of the development

process itself, the brightest hopes must be doomed to disappointment. And the collapse of one scheme may have repercussions very damaging to the cause of international development as a whole.

13. While the development problem consists in the diversion of resources away from current consumption or in the mobilization of resources previously unemployed or underemployed, the financial problem is essentially how to divert part, or rather an unusually large part, of the national income into the required channels of investment. It must be recognized at once that in the low income countries this is a difficult problem. When people are living at the subsistence minimum and the average per caput national income is substantially less than \$100, it is extremely difficult to divert even a modest 10 per cent. into new investment. Any much higher rate of saving may involve serious and prolonged privation for the masses of the population. In short, the lower the level of per caput income the greater is the need for a country to seek productive employment for unemployed or underemployed resources and labour at home and to expand its money structure to fit the higher real national income thus created. This requires skilled and firm administration. Funds for development have to be raised by internal borrowing, by taxation, or by other procedures. We again stress that first among the needs of the less developed countries there is an administrative machine capable of handling any such procedures effectively.

External Finance

14. With the development in the role and scope of domestic financing, external finance has come to be regarded less as a general subvention to the internal budget, and is now associated more closely with the foreign exchange needs arising from a nation's import programme and foreign "invisible" payments. In the context of development projects, therefore, the external finance to be provided is not to be measured by the aggregate cost of each project, nor even by the gross foreign exchange costs entailed, but rather by the net deficit of a country's balance of payments which is likely to arise during the development.

15. This deficit is closely connected with, though not exclusively dependent upon, the level of consumption which the developing country permits itself during its development phase—a level which, as already pointed out, would allow little reduction in countries where a large proportion of the population is already living at the margin of subsistence. The problem is therefore to steer a wise middle course between, on the one hand, extreme rigours of self-denial which might bring the project to political shipwreck before it was completed, and, on the other hand, too lavish a provision of foreign exchange which might establish a standard of living that would relieve the country of the necessary and proper effort of self-help and would merely lead to another cycle of default and disillusionment which might cripple international development for a generation to come.

16. The timing of new international investment is a matter of some importance. At present the vast new productive capacity which was developed during the war in certain countries is fully used, and indeed hardly sufficient to meet the demands for reconstruction and re-equipment. This, however, will not keep the industrial capacity fully utilized indefinitely. When the extraordinary demand begins to diminish, the time will have arrived for vigorous action in regard to development projects. We do not wish to give the impression that judicious timing of international investment can alone be made a cure for economic depressions. The prevention of depressions requires the use of many other techniques outside the scope of this report. While there may be some of the projects which could be deferred from boom to

slack periods, the spending of international credits mostly extends over a number of years. Nor is foreign lending a tap which can be turned on and off exactly to fit the rhythm of the business cycle. Even the International Bank for Reconstruction and Development has to time its operations in the security market as advantageously as possible. It is, therefore, of interest to the principal lending countries, some of which have sensitive and unstable economies, that international investments should be conceived and timed as far as practicable to mitigate rather than to aggravate business cycle fluctuations.

Existing External Facilities

17. Against this background it may be useful to list the different types of external financing facilities available at the present time.

(a) *Commercial credit extended by manufacturing, engineering, and merchant concerns in the developed countries.* For capital installations, such credit may extend over several years, providing for payment by instalments during the construction period plus a further maintenance period after the work is complete. On the whole, the past record of this type of financing has been satisfactory, and full use should be made of it in any development programme.

(b) *The formation of subsidiaries in foreign countries by manufacturing concerns established in the developed countries* had become an important element in international development before the war. Some head offices appear ready to consider expansion by this means at the present time. This might cover manufacturing plants, maintenance and spare part depots. Governments of development countries could, consistently with their policy regarding foreign participation, assist this type of investment in appropriate ways.

(c) *Export development facilities provided by governments to encourage exports.* The Export-Import Bank in the United States, the Export Credits Guarantee Department of the Board of Trade in the United Kingdom, and the Export Credit Guarantee facilities provided in Canada, in effect provide an extension and reinforcement of commercial credits. In the present seller's markets, governments may not be anxious to expand these facilities, which are already taken up to or near their capacity. But as the seller's market eases, capacity will be released, and governments may be ready to provide further facilities to promote their trade.

(d) *Loans by bankers and others.* Although the old type of international loan by public issue of bonds is at least temporarily in eclipse, bankers and other credit institutions appear still to be prepared to arrange short-term loans or revolving credits in suitable circumstances, and might again be able to float bonds for long-range investment, once conditions in borrowing countries become stabilized.

(e) *Direct government-to-government loans.* Where political or other ties exist, government-to-government loans have been available in the past and are likely to be available in the future. Colonial developments funds are an example. While this type of loan and development, being the responsibility of individual governments, may not fall within the ambit of F.A.O. and the other United Nations agencies, it is relevant to this inquiry because it plays its part in the general process of development throughout the world.

(f) *Accumulated balances of foreign exchange.* During the war many countries, previously ill-supplied with external resources, have accumulated great amounts of sterling, dollars, and even gold. These resources are unevenly spread through the world, but where they exist they provide a reserve which can be drawn upon at greater or less rate to supplement current

foreign earnings. They also provide an opportunity for capital development which, it is to be hoped, will not be frittered away by excessive expenditures on current consumption imports. Where these balances would be valuable in financing worthwhile development projects, it is desirable that every effort should be made by international co-operation to free them for the purpose.

(g) *The International Monetary Fund* is authorized under the conditions specified in the Articles of Agreement to provide member countries experiencing temporary balance of payments deficits with foreign exchange against payment in their own currency. The specific use which is made by the member of each parcel of foreign exchange will not be examined; what is significant is the magnitude of the use which a member makes of the Fund's resources and the prospective balance of payments position of that member. The essential test of the propriety of use of the Fund's resources is not the character of the goods imported, but rather whether the prospective balance of payments position of the country concerned (including long term capital movements) will be such that its use of the Fund's resources will be of relatively short duration. The Fund's resources are not intended to be used to meet chronic deficits or long term needs nor to provide large scale facilities for relief and reconstruction. Long term development programmes could not as such be financed by the Fund but the Fund may provide foreign exchange to cover temporary needs of countries engaged in such programmes.

(h) *The International Bank for Reconstruction and Development* was established for purposes which clearly include the making (or guaranteeing) of loans for both industrial and agricultural development. The Commission has been informed that no type of activity listed in paragraph 3 under "Types and Costs of Development Activities" is to be excluded as *prima facie* ineligible for financing by the Bank. As these items arise in specific applications for loans, the test will be whether or not the activity is an integral part of a financially satisfactory reconstruction or development project. The Bank's Articles of Agreement expressly provide that the Bank shall make a loan only when satisfied that the borrower would be unable otherwise to obtain the loan on reasonable conditions, and they also require that the Bank shall have due regard to the prospects that the loan will be repaid in accordance with its terms and that the Bank shall "act prudently in the interests both of the members in whose territories the project is located and of the members as a whole." The Bank is to employ its resources prudently and for constructive purposes, having regard not only to the financial soundness of the particular loan, but also to the efficacy of the project for which the loan is made in the development programme of the borrowing member, and the effect upon the balance of payments of such member.

18. In the opinion of the Commission, it is essential that the Directors of the Bank, in interpreting this obligation, should act in the spirit of the wide-visioned conception of the "purposes" embodied in the Preamble to the Charter of the Bank. That they should is essential if the development and expansion of trade necessary to establish a better economic order is to be realized. Until the present uncertainties as to the future of world peace are removed, the worst war destruction is repaired, greater economic stability is established, and the economic development is more under way, private enterprise and finance will be hesitant. The Bank was designed to tide over this period and to pave the way for individual initiative again to play a more active part.

Adequacy of Existing Facilities

19. The Commission is impressed by the central importance of finance in the successful prosecution of any large development project whether in industry

or in agriculture. In considering the matter of the adequacy of existing facilities for providing the external finance which may be required for the various activities listed earlier in this chapter, the Commission wishes to make two points clear:

(a) First, there is no dispute that there are certain types of goods and services, essential to a country's development, which, taken by themselves, could not easily be financed as specific development projects under any of the existing external credit facilities (though the Commission is informed that the International Bank would be prepared to consider financing any goods or services when forming part of a larger development project). Such might be research programmes or educational programmes, the primary importance of which has been impressed upon the Commission by several of its members with direct experience in the field. This, however, is not evidence of a gap in international financing facilities. As indicated above, the fundamental need for external finance is for the purpose of covering the net deficit on the external balance of payments of the country concerned. Here, as in other types of financing, the well-tried commercial principle applies that the finance should be raised, not necessarily on the security of the particular goods or services to be acquired, but on the best security available for the purpose. A parallel case seen in very recent experience was that of Lend-Lease and Mutual Aid, in which it was an accepted principle that there were certain types of goods and services which, for political, administrative, or constitutional reasons, were unsuitable for Lend-Lease or Mutual Aid procurement, and that such things should be left to be purchased in the normal course of trade and to be paid for out of foreign exchange currently accruing from exports and other sources. Lend-Lease and Mutual Aid were concentrated on the supplies best suited to them. So also, in the development schemes envisaged above, certain supplies and services will best be paid for out of the current earnings of the development country, and the net deficit on the balance of payments will best be financed on the items most eligible for financing by existing institutions.

(b) Secondly, the indications given above make it clear, and indeed there is no dispute, that the aggregate external cost of development schemes required to fulfil the objectives agreed upon at the Copenhagen Conference is likely to exceed greatly the resources at present available to the International Bank and that, if those objectives are to be achieved in full, further resources will have to be provided. That, however, raises the question not of whether the needs under the various heads are of a type which could be met from existing national and international institutions, but of whether the funds of those institutions will ultimately prove sufficient for their purpose. At present the position is that definitive applications for development projects submitted to the International Bank are well within the Bank's authorized resources. But while it is true that there is no strain yet on the Bank's resources, it will be disappointing from the point of view of world expansion if very much larger resources do not become necessary in a few years' time.

20. In the light of all the foregoing the Commission is impressed with the importance of early and effective cooperation among international agencies in the formulation of development policies and plans. The assistance which a country may need in any extensive development undertaking may involve other international agencies as well as F.A.O. Unless there is effective liaison among these agencies the effect may be essentially the same as though some of the existing facilities had not been available. For example, a country would have accomplished little by obtaining assistance from F.A.O.

in the stage of preliminary planning and survey, if later, when it applied for a loan from the International Bank, it found that requirements of that agency had not been satisfied in such preparatory work. The question of liaison and collaboration calls for attention by the appropriate officials of each international agency.

Recommendations:

21. The Commission accordingly recommends:

(a) That before consideration is given to the establishment of any further financial facilities, the existing institutions of the United Nations should be put to the test.

(b) That in view of the importance of ensuring that needed development projects are not held up for lack of necessary and proper financing, the Director-General of F.A.O. should consult with the proper officials of the International Bank for the purpose of making the most practicable arrangements for cooperation between the two agencies and of bringing about the fullest utilization of their respective facilities in the field of development policy and in the planning of individual development projects.

(c) That the progress of development be kept under continuous review so that if at any time a development project or programme of significance to agriculture justified on other grounds, has been unable to go forward for lack of adequate international financial facilities, the Director-General of F.A.O. and the Board of Executive Directors of the International Bank should forthwith report the circumstances to their respective member governments and to the Economic and Social Council with recommendations for any appropriate action.

(d) That where projects need to be undertaken promptly, the country concerned should be encouraged, even though the sum involved may be small, to submit an application to the International Bank for such external finance as may be required, without waiting until the particular development can be included in a fully comprehensive project, the adequate formulation of which might require considerable time.

(e) That in view of the importance of ensuring that any national development scheme reposes on a wise system of domestic finance in the country concerned, the Economic and Social Council of the United Nations should be requested to review, and if necessary to strengthen, the international services available for advising development countries regarding the introduction and establishment of wise internal systems of finance, utilizing the services of the specialised international agencies in the area with which each is concerned.

CHAPTER 5. PRICE STABILIZATION AND COMMODITY POLICY

1. The instability of agricultural prices has long been recognized as a major obstacle to orderly production and distribution of farm products, leading often to severe hardship and suffering among those who live and work on the land. A major factor in this instability is the business cycle with its large fluctuations in consumer purchasing power. Maintenance of industrial production, business activity and employment at a continuous high level would be the most important contribution towards steadying the demand for food and especially towards helping to expand the demand for foodstuffs for which the demand is more elastic. Conversely, a fall in agricultural prices may in some cases be an important contributor to the beginning of an economic depression.

2. Agricultural prices are peculiarly sensitive because demand is comparatively inelastic for a large number of farm products and because supply tends to be inelastic in face of falling prices. The League of Nations' index for the volume of world output of industrial goods fell by 37 per cent. between 1929 and 1932. The corresponding index for world agricultural output fell by only 1 per cent. during the same period. Meanwhile, the price index for foodstuffs in international trade fell by 47.5 per cent.* This suggests how difficult it is to secure downward adjustments in agricultural output by reducing prices, and moreover for the farmers the situation is aggravated by the fact that in a depression the prices they receive tend to fall more sharply than the prices of the things they buy.

3. The fear of agricultural surpluses is widespread and has its roots in the experience of the past. The severe depression of the 1930's instilled a fear of overproduction and a lack of confidence in the possibility of an expanding world demand. Today the same fears are beginning to return and there is a widely expressed feeling that in view of the limitation of economic demand surpluses will inevitably recur in a few years' time. Consequently, even under present conditions of world scarcity there is a reluctance on the part of producers and governments to go all-out for full expansion for fear of over-shooting the mark.

4. It is sometimes too readily assumed that the only way to secure reasonable prices for agricultural producers is by restriction of production. The thesis is that there is a comparatively inelastic demand in the home market and in export markets and that this demand having once been ascertained, production must be adjusted to it. The Commission rejects the proposition that restriction must be the first and chief supporting pillar in a system of price stabilization. The objectives remitted to us at Copenhagen are two-fold—we have been asked to provide for the stabilization of agricultural prices at levels fair to producers and consumers alike, and to provide for developing and organizing the production, distribution, and utilization of basic foods to provide diets on a health standard for the peoples of all countries. It is particularly to the first of these objectives that we address ourselves in this Chapter. It is our conviction that the two can and must be achieved together.

5. The discussion which follows in this Chapter concerns not so much the minor foodstuffs and agricultural products, but rather the staple farm products which are important in national diets and in international trade. While in Chapter 6 we shall deal with a selected list of commodities, in this Chapter we are more concerned with general principles. We attach importance to formulating such general principles regarding commodity policy. But we recognize that they do not all apply to all commodities and that they would need to be selectively developed and adapted to the circumstances of individual commodities.

National Policies and International Markets

6. The experiences of the past have dealt a serious blow to traditional methods of unregulated production and exchange of foodstuffs. Today, both in exporting and importing countries, many governments are committed to policies of price regulation and subsidization designed to maintain farm income and to supply consumers with food at prices, and by methods, far removed from those which would prevail in unregulated markets and from the price at which goods are bought and sold in the international market. Moreover, state regulation of production, prices and trade (or even state trading) seems likely to continue in many countries, particularly in regard to agricultural products.

*World Production and Prices, League of Nations, Geneva, 1938.

7. Under these circumstances, the international market for agricultural products is by no means a "free" market in the traditional sense of that term. In view of the government action with respect to production, prices, and trade which exists in the world today, new methods of marketing and distribution are being adopted. This Commission has thought it right to give particular attention to this situation and has discussed at length some of its implications. It is, in our view, a situation in which the issues are largely intergovernmental and if we are to further the objectives of orderly expansion in production and consumption and of freeing the channels of trade, intergovernmental consultation is called for, leading where appropriate to international commodity arrangements.

Commodity Arrangements

8. Discussion generally and the I.T.O. Draft Charter in particular have focussed attention on one particular type of commodity arrangement, namely, regulatory agreements. (A regulatory agreement is defined in the London text of the I.T.O. Draft Charter as "an intergovernmental commodity arrangement involving regulation of production, export or import of a commodity or regulation of prices.") The International Sugar Agreement, and the 1942 Draft Wheat Agreement are examples. They include provisions for export quotas, regulation of stock-holdings, and in the case of wheat, for price regulation.

9. At the other extreme, it would be quite possible to have an informal commodity arrangement without any specific regulation of prices, trade or production. Such an arrangement might provide merely for an annual consultation between governments interested in the particular commodity in order to review production trends and market prospects. Moreover, there may be several types of useful arrangements between these two extremes. A Commodity Council can be a convenient forum for the multilateral consideration of long-term contracts, bulk purchasing agreements, and other bilateral arrangements entered into by governments.

10. Regardless of the particular form which commodity arrangements may take, they should all be motivated by genuinely multilateral considerations. They should all of them meet three requirements: first, they should contribute toward stabilization of agricultural prices at levels fair to producers and consumers alike; secondly, they should, so far as possible, avoid any restriction of production and should stimulate an expansion of consumption and an improvement of nutrition; thirdly, they should encourage, consistently with considerations relevant to the national economy of each country, shifts of production to areas in which the commodities can be most economically and effectively produced. It is the hope and recommendation of this Commission that the commodity arrangements of the future will meet these requirements. The Commission therefore endorses the objectives laid down in Articles 46 and 47 of the suggested I.T.O. Charter, in regard to Intergovernmental Commodity Arrangements. In view of their importance these articles are set out in full below.*

*Extract from the Report of the First Session of the Preparatory Committee of the United Nations Conference on Trade and Employment. (London, October, 1946.)

CHAPTER VII

INTERGOVERNMENTAL COMMODITY ARRANGEMENTS

ARTICLE 46

General Statement on Difficulties Relating to Primary Commodities.

Members recognize that the relationship between production and consumption of some primary commodities may present special difficulties.

These special difficulties are different in character from those which manufactured goods present generally. They arise out of such conditions as the disequilibrium between

11. In negotiating commodity agreements conforming to these requirements, particular attention will need to be focussed on the problems of: (a) relationship between total production and consumption; (b) price determination and stability; (c) methods for securing stabilization, including where appropriate reserve stocks, quotas, and other measures; (d) special price sales for the improvement of nutrition.

(a) Relationship between total production and consumption

12. For reasons set out earlier in this Chapter, a disequilibrium between production and consumption may, in the case of certain commodities, cause serious hardship to producers in the absence of specific governmental action. Negotiations of international commodity agreements must therefore be based upon a careful study of the particular circumstances of the commodity concerned, and the measures agreed upon must take account of the nature and intensity of the difficulties in a given case.

13. Particular circumstances differ sharply from one commodity to another. In some products, for example fruit, annual output fluctuates greatly. Some are easily stored, others highly perishable; some are derived from trees or shrubs (such as forests, olives, fruit trees, oil-bearing palms, rubber, tea, coffee, cacao) and have a long production period; others involve a high and specialized capital investment, such as sugar and dairy products, which also require long-term planning and production. And, the producers of some have difficulty in adjusting production to lower prices because the conditions of soil or climate or the general production methods allow no rapid changes in the pattern of production. The Commission has reviewed these and other problems of adjustment for a series of agricultural commodities and is convinced that no common solution can be devised covering all commodities and all different conditions of production.

14. In any study and negotiation on an individual commodity the Commission feels that readjustment first of all has to be sought in expansion of consumption. There are several possibilities to achieve this goal. The development of new applications by research and of new markets by publicity

production and consumption, the accumulation of burdensome stocks and pronounced fluctuations in prices. They may have a seriously adverse effect on the interests of both producers and consumers. Moreover they may have widespread repercussions which would jeopardize the general policy of economic expansion.

ARTICLE 47

Objectives of Intergovernmental Commodity Arrangements.

Members agree that intergovernmental commodity arrangements may be employed to achieve the following objectives:

(1) To enable countries to find solutions to the special commodity difficulties referred to in Article 46 without resorting to action inconsistent with the purposes of the Charter.

(2) To prevent or alleviate the serious economic problems which may arise when production adjustments cannot be effected by the free play of market forces as rapidly as the circumstances require.

(3) To provide, during the period which may be necessary, a framework for the consideration and development of measures which will have as their purpose economic adjustments designed to promote the expansion of consumption or a shift of resources and manpower out of over-expanded industries into new and productive occupations.

(4) To moderate pronounced fluctuations in the price of a primary commodity above and below the level which expresses the long-term equilibrium between the forces of supply and demand.

(5) To maintain and develop the natural resources of the world and protect them from unnecessary exhaustion.

(6) To provide for expansion in the production of a primary commodity which is in such short supply as seriously to prejudice the interests of consumers.

and education have proved their value for expanding consumption. In certain cases decrease of taxation on the commodity in question may greatly help to increase consumption. Further, a considerable expansion of consumption can be achieved for several basic foodstuffs by introducing a system of special prices for people in need.

15. In drafting their agricultural production programmes, governments should keep in view such possibilities as there may be of shifts from one product to another. Shifts in production should, however, be carried out so as to avoid serious economic and social dislocations. Governments will also wish to consider problems of domestic production of vital agricultural commodities in the light of national security. The Commission is impressed by the complexity and difficulty of these problems, but is convinced that it is to the benefit of the whole world if shifts can be accomplished to promote both a balanced relationship between world production and consumption and the most effective utilization of the resources of each country. This will be a matter most appropriate for regular consultation among governments Members of F.A.O. as suggested in Chapters 2 and 7.

(b) Price determination and stability

16. Owing to unilateral government intervention, the international price nowadays in many instances differs materially from the price the producer gets or the price the consumer pays. But it must not be forgotten that the policies and actions of governments at home have repercussions abroad and may exert a powerful influence on price as well as on supply and demand in international trade. The need, therefore, is to secure international co-ordination, governed not merely by the exigencies of the short-term, but rather by the objective of achieving a long-term equilibrium situation regarding production and consumption as well as prices. We recognize that such a long-term equilibrium can be realized only gradually, often because of the comparative inelasticity of demand and supply.

17. Whereas the Copenhagen Conference set as an objective stabilization of prices at levels "fair to producers and consumers alike," the Commission devoted a long discussion to the implications of this terminology. It has had the opportunity of considering the Caracas resolution on the definition of a fair price* and the postulate of the recent London conference of the Preparatory Commission for Trade and Employment on reasonable prices.† In cases where a price or price range is negotiated between governments for commercial sales, it is for the governments to aim at a price which as far as possible is fair to the conditions of living of both producers and consumers. In the case of commodities where no intergovernmental price negotiations are undertaken, the other techniques of commodity policy discussed in this Chapter may help to steady prices at levels which safeguard the legitimate interests of governments, producers and consumers. The Commission realizes that a single commercial price, however arrived at, will in important instances be beyond the means of masses of low income people in many countries.

* "That the selling price of products be such that it will furnish those countries which are in a position to maintain efficient production a reasonable income in order to maintain the purchasing power of their people as importers and consumers, at an adequate level sufficient to meet the requirements of a decent living; which objective is attained principally on the basis of such working conditions as permit workers to be free from want and by furnishing farmers sufficient income to meet their needs and to maintain an even tempo of expanded production. Such price must make it possible, nevertheless, for the consumer countries to obtain under conditions of stability and regularity, the products which they may have to import." (Third Inter-American Conference on Agriculture; Caracas, Venezuela; July 24—August 7, 1945).

† (Commodity) agreements shall be designed to assure the availability of supplies adequate at all times for world demand at reasonable prices. (Art. 53, paragraph 4, London draft.)

Therefore, the Commission makes in a later part of this Chapter suggestions for intergovernmental arrangements by which surplus food should be made available at special prices for the purpose of raising nutritional levels of such low income groups.

18. Against this background we add the following observations on price determination and stabilization:

First. In our belief international agreement can contribute powerfully to the objective of price stabilization.

Secondly. The objective of price stabilization is to provide a foundation of confidence upon which producers can embark on programmes of expanding production. This confidence is required whether the producers are further fortified by guarantees from their own governments or not; for governments will themselves look for some assurance that the cost of their price support programmes will not have to be immoderately increased.

Thirdly. At the present time the prices of some agricultural products not only vary widely from country to country but are intensely influenced by scarcity and inflationary pressure. By stabilization we do not necessarily intend stabilization of the existing level of all agricultural prices.

Fourthly. The objective of stabilization should be to smooth out cyclical and seasonal or periodic price fluctuations, not to withstand movements of a secular character due to a persistence of excess or deficient production.

Fifthly. Careful consideration should be given to the relationship between the stabilized price and the price of other commodities directly or indirectly related. The Commission is well aware that one danger of approaching these problems by way of individual commodity agreements is that these relationships may easily be overlooked.

Sixthly. It is contemplated in the I.T.O. Draft Charter that commodity agreements should be negotiated for periods not exceeding five years. It seems to us desirable that price clauses, if forming part of the agreement, should be reviewed more frequently should serious unforeseen difficulties develop.

Seventhly. In the case of some commodities a fixed price might be negotiated; for others, a price range consisting of a minimum ("floor") and maximum ("ceiling") price; for yet others the agreement may contain no article regarding price, relying on other measures for securing price stability. Where there are differences in grade or location, price differentials would have to be determined.

(c) Stabilization measures

19. Any international agreement regarding a fixed price or range of prices can only be effective if supported by various measures which will help to stabilize prices in face of variations in supply or in demand. These measures will differ from commodity to commodity and what is appropriate will have to be worked out in the negotiation of individual commodity agreements. Without attempting to consider exhaustively the different methods which may be applicable, we discuss below certain of the more important techniques which have already emerged as proposals in the commodity agreements of the past. These are (i) reserve stocks; (ii) quotas; (iii) long-term contracts; and (iv) rules regarding non-participants.

(i) Reserve Stocks

20. Stocks can never be an end in themselves. They entail some wastage, considerable cost, and, unless wisely managed, may even become a means

of withholding supplies from consumption. The extent to which a commodity agreement can include provisions for reserve stocks depends upon a variety of circumstances, as for example, upon the cost and practicability of storage and the objectives which could effectively be met by stockholding. Wheat and certain other grains can in many countries be stored for considerable periods without prohibitive cost. On the other hand, the storage of certain livestock products is expensive and of many fruits and vegetables virtually impossible.

Yet even as regards perishables, it may in some cases be possible to transform temporary surpluses into more storable products by suitable processing.

21. In the case of storable products, however, reserves wisely used can make an important contribution to our objectives. We envisage reserves of three kinds: working stocks and, in certain instances, famine reserves and price stabilization reserves. We are advocating international agreement on the management of famine and price stabilization reserves, but we are not advocating that they be financed internationally. In the hands of individual members all reserves will be one stockpile, different parts of which may be on call under certain prescribed circumstances.

22. By *working stocks* we understand the quantities which each nation needs to cover its own requirements. This includes pipeline (normal shipping and distribution) requirements, a reserve against crop fluctuations, and in the case of importing countries, a reserve against fluctuations in import supply; or in the case of exporting countries, a reserve to help maintain their export markets. Subject to commitments under an international agreement, each country will hold such working stocks as it considers desirable.

23. Beyond this we recommend in the case of essential foodstuffs the creation of a *Famine Reserve* as soon as the supply position permits. This will be necessary particularly for bread grains and rice. It might later be possible to establish a famine reserve also of such commodities as processed milk, preserved eggs, meat, and fish. We propose that this reserve would be held nationally by exporting and importing countries for use nationally and internationally under agreed conditions. In our view it is important that every country should have the security of knowing that the world is holding food against the risk of successive short crops or of other natural disaster. The amount of reserve to be carried by each member will be decided for each commodity by international agreement and each member will bear the cost of carrying his own share. But the distribution among members of the aggregate burden should be equitable both as to carrying cost and as regards any loss which might be incurred in distribution to famine areas. As the purpose of the famine reserve is to relieve urgent needs, the World Food Council (see Chapter 7) should be authorized to ask for shipments from any country without delay, allowing for adjustments later. Contributions should be in kind, so far as feasible, on the basis of an equal percentage of the total reserve.

24. For certain commodities where the problem is mainly one of seasonal and cyclical price fluctuations, we recommend the creation of *Price Stabilization Reserves*. These are what are sometimes called buffer stocks. The idea usually suggested is that a buffer stock agency or agencies should undertake to buy any quantity of the product offered at the floor price and to sell any quantity demanded at the ceiling price. Thus in a period of low prices, the agency would be accumulating a large commodity reserve and thereby would prevent the price falling through the floor. In times of scarcity the agency would make releases from its stock in order to prevent

the price from going through the ceiling. The Commission agrees that in suitable conditions such reserves can perform a useful function, but is convinced that upper limits must be prescribed for the amount of the reserves, although opinions differ as to how large a reserve would be needed. The differences depend upon the view taken as to the length and gravity of future economic depressions, and upon the commodity involved. The device of a Price Stabilization Reserve can be applied with advantage only where demand or supply fluctuates sharply over the short term. If it is consumption that fluctuates, the reserve serves to assure a stable outlet for producers; if it is production that fluctuates, it serves to assure stable supplies for consumers. Price Stabilization Reserves, however, cannot solve the problem of persistent surpluses.

25. The proposal was put to us in two forms. First, that there should be an international agency, provided with funds subscribed by member governments, and that this agency should itself own and dispose of the reserves. Second, that the stocks should be nationally held, but administered under internationally agreed rules. We have come to the conclusion that this second alternative is the only practical procedure under present conditions for the commodities which we have considered. It has become clear to us that many important governments are unlikely to accept the obligation of making large financial contributions to an international Price Stabilisation Reserve. For some countries such an obligation might aggravate their balance of payment problems and by establishing a prior charge on their exchange resources, might merely force them to restrict current trade. Financial and balance of payment problems, are, of course, involved in national stockholding, but they are of a more tractable nature. There are also problems connected with the storage of nationally held reserves which should be examined when a commodity agreement is being negotiated.

26. We therefore recommend that, where appropriate, provision should be made for special price stabilization reserves, to be accumulated by each member when prices in international trade drop to the floor, and to be sold when these prices rise to the ceiling. Such reserves should be accumulated first by exporting countries, and only upon request by an exporting country that has filled this reserve to the agreed level would importing countries have to fill up their price stabilization reserves. Similarly, when prices are at the ceiling, importing countries will draw on their price stabilization reserve for their own requirements before calling on exporting countries to sell from their price stabilization reserves. To minimize balance of payments difficulties importing countries should have the right to claim balance of payment waiver under conditions to be determined. Exporting countries should have the right to draw on their Price Stabilization Reserve to meet their domestic requirements and maintain their normal export trade.

27. Any exporting member country may give notice to the authority administering the commodity agreement that in lieu of accumulating stocks for a Price Stabilization Reserve, it intends to maintain its production over a stated period in excess of that required for domestic consumption and commercial export sales anticipated at the floor price. With the approval of the Commodity Council, such member may thereupon sell its excess production in agreed amounts over an agreed period at special prices below the floor under the rules established for such sales, and subject to the understanding that the first claim on its total exportable supply is for the satisfaction of commercial demand at the floor price, allowance being made for minor day-to-day price fluctuations and for prices to rise if such first charge does not suffice to maintain them at the floor.

(ii) Quotas

28. Quotas are a quantitative expression of international agreement regarding imports or exports (and in some instance production). During the 1930's quotas were a regular feature of most international commodity agreements, and indeed, where there were no provisions for reserve stocks, the members of those agreements frequently sought to steady the price by adjusting the quotas in response to changes in volume of output or consumption. For some commodities quotas have to be the basic device of the agreement. In all cases they ought to be flexible and adjustable, must not interfere with the normal trade channels more than is necessary and must be non-discriminatory. The vital interests of all participating countries must be taken into full account. Most often quotas will form part of a more comprehensive arrangement covering prices, stocks, and measures to expand production or consumption, as the case may be.

29. When used in the right and proper way, quotas may achieve a common and fair sharing of the burdens of shortage or overproduction, by all interested countries, both producing and consuming. The Commission is aware that in the case of overproduction the burden usually rests upon exporters, in the case of a shortage, conversely, upon importers. On the other hand, quotas have certain dangerous aspects. They may perpetuate a given distribution of production between countries and thus impede desirable production shifts. Stabilization of price by quotas may be at the expense of the quality or quantity marketed. Furthermore, unless they constitute only one element in a commodity agreement containing many more positive provisions, they may lead very quickly into programmes of production restriction. Weighing up the advantages and disadvantages, it is our view that subject to adequate safeguards quotas can be usefully written into international agreements for certain types of agricultural products.

30. The exact rule of quotas will differ from commodity to commodity. In the case of a commodity like wheat, we recommend that the principles of export regulation and the proportionate quotas of individual members should be agreed when the commodity agreement is originally drawn up. But they should be brought into operation only when, in spite of provisions, if any, for reserve stocks, a condition of world scarcity or world surplus is anticipated. If quotas remain in operation at the end of the period of the agreement, there should be a review of production policies and of the price range, bearing in mind that producing countries will require time to make whatever adjustments are required in their agricultural pattern, and that during the adjustment period every effort should be made to maintain price stability.

31. There may be other commodities, such as sugar, where quotas are employed in a commodity agreement but not in conjunction with any agreement as to price. In such cases, quotas besides tending to equate demand and supply in the interest of price stability are used to secure to exporting countries a fair share in a market which could not be expanded materially by any practicable change in price policy. In the case of sugar, because of the existence of excise taxes and import restrictions, a mere reduction of price can do little to achieve a significant expansion in consumption.

32. Finally, export quotas will often be required as an administrative necessity in programmes for sales at special prices in order to demarcate the commercial export trade from the special price exports.

(iii) Long-term contracts

33. While long-term contracts first emerged on a significant scale during the war, there is an increasing tendency to continue their use. It is therefore

necessary briefly to consider their advantages and disadvantages. An important aim of long-term contracts is to extend into the international field assured markets for producers similar to those which they enjoy domestically within many countries. But some delegations claimed that long-term contracts tend to interfere with desirable shifts in resources. The chief dangers to avoid are discriminatory and prejudicial effects on countries which are not parties to the contracts. To meet these dangers, the Commission recommends that long-term contracts should be made in conformity with the relevant principles of the suggested I.T.O. Charter, and that the following propositions might be further considered:—

(a) That contracts should be negotiated within the framework of international trade policy and multilateral commodity arrangements;

(b) That there should be some limitation on the proportion of a producing country's exportable surplus that an importing country may contract;

(c) That when economic conditions have become more normal, the price at which products of like quality are sold under contracts having the same terms should be the same to all countries, unless with the approval of the appropriate international authority a different price is applied in particular instances;

(d) That importers should not manipulate stocks for the purpose of securing excessively low prices, nor should exporters for the purpose of securing excessively high prices;

(e) That long-term contracts should include a clause providing that the terms and conditions should be subject to review and adjustment at stated times.

(iv) Non-participants

34. When a commodity arrangement is negotiated, all efforts should be made to achieve participation by all countries substantially interested in the production, consumption, or trade of that particular commodity. In the past, some agreements suffered and could not work smoothly due to lack of representation by large consumers groups or the reluctance of outsider producers to join the scheme. But while, as a general principle, participation should be open to all nations, no country can be forced to enter into an agreement. Voluntary membership, based upon mutual advantage should be the keynote of all commodity arrangements. As it may be impracticable for every country having a small interest in a commodity to participate in the agreement, non-participating countries should be assured of equitable treatment. The interests of smaller importing countries must be safeguarded by a non-discriminatory, regular supply. In the case of non-participating exporters, it would be unfair if they were allowed to profit unduly from the sacrifices made by participants. Both for importers and exporters the principle must be equitable advantages in return for equitable obligations. In our view, the rules governing relations with non-members of a commodity agreement, while in general following the terms of the I.T.O. Charter, must in their particulars and details vary from commodity to commodity and be the subject of a negotiation.

(d) Special Price Sales For the Improvement of Nutrition

35. For many years there have been in operation in various countries programmes for the disposal of products on special terms and conditions to people in need. These have included school lunches, other direct distribution programs, and such devices as food stamps which enable low income groups to obtain additional quantities of specified foods through the shops. In some countries during the war years certain foodstuffs were made available to

vulnerable groups free of charge or at especially reduced prices. There is no doubt that such programmes could be advantageously adopted in a number of countries, and that other programmes could be worked out that might prove of great value. All these endeavours, however, mainly concern the more advanced countries where the problem is mainly one of assuring that low income groups and vulnerable groups have access to the food they need. In less developed countries where a large part of the population is undernourished, certain nutritional programmes can no doubt be worked out and we understand that F.A.O. is anxious to promote these. But the primary problem for such countries is how to obtain a general increase in the supply of food. This is the problem to which the "Proposals for a World Food Board", laid before the Copenhagen Conference, directed the attention of the World.

36. As we have stressed in earlier chapters, chronic malnutrition is a problem which should be dealt with primarily by long-term measures looking to remedy of the underlying causes. Long-term solutions would necessarily require: (a) improvement of indigenous production both as regards quality and quantity of those foods most needed for improvement of nutrition which could be produced economically in the area; (b) improvement in the distribution of food; (c) improvement in the practice of nutritional principles within the areas; and (d) general economic development including expanded production and exports of commodities in which the area has comparative advantages. In brief, the obligation upon every nation that accepted the Constitution of F.A.O. is "to raise levels of nutrition and standards of living of peoples under their respective jurisdiction." Self-help is the first requirement and the only means by which a permanent advance can be made in the nutritional levels of one thousand million people in undernourished countries. On this we have already made recommendations in Chapters 2 and 3.

37. But even assuming bold programmes of economic development, it will be many years before some of these countries are able to produce an adequate food supply or can afford to supplement their home production with food imports on any great scale. Meanwhile, the serious nutritional need remains and may even impede the best devised programmes of self-help. On the other hand, it has been put to us that some exporting countries might wish to produce as a regular feature over a period of time more than could be sold in the commercial markets with their limited elasticity of demand in regard to important agricultural products. In the case of wheat, for instance, the delegations of three exporting countries, the U.S.A., Canada and Australia, have stated that their farms are now equipped and organized to produce wheat efficiently at the current level of output. Some of these countries under their agricultural policies, may have to incur expense if they have to restrict plantings or divert land to other use. These delegations have stated, moreover, that in some instances curtailment in wheat plantings would make it necessary for many farms to operate below their installed capacity and might well lead to increased costs per bushel rather than reduced costs. Diversion of food to non-food uses might also involve producers or national treasuries in financial losses.

38. The problem is how to marry the potential production with the manifest need. So long as the potential extra production has no outlet except the general export market at the commercial price, it will not be produced, for it would only depress the price without materially widening the market. But if the producers can be given the assurance both of a reasonable price in the commercial market proper and of a steady outlet for excess production at special prices, then the way is open for essential foodstuffs, which exporting

countries might be prepared to sell at special prices, to be made available to countries in which a large section of the population suffers chronically from malnutrition, or elsewhere in connection with specific nutritional or food distribution programmes. This is a system which could be useful for breadgrains and rice, basic foodstuffs for the mass of the population of the world, and in certain circumstances for such protective foods as citrus fruit concentrates, dried fruits and vegetables, dried fish, and some live-stock products. In the last instance, such programmes might be facilitated by special price programmes for feedstuffs.

39. Such a far-reaching proposal we feel to be warranted having regard to the conditions which we have portrayed. Nevertheless, its qualifications must be recognised. First, the surplus sales arrangements must be fitted into the agricultural production programmes of the exporting countries. Secondly, the cost to the exporter of providing supplies at special prices must not be recovered by transferring any part of the burden to the price of commercial exports. Third, since in total the sales at special prices are likely to be substantially smaller than the sales at commercial prices, which in turn constitute only a small part of the world's agricultural production, such disposal programmes can make only a limited contribution to the nutrition of the less developed countries, even though production may be expanded in some countries for the purpose of making special-price sales.

40. For a system of special disposal programmes to operate, an essential requirement is that the commercial market be effectively separated from the special price market. This may be done by various devices such as quotas, price-fixing, or seasonal restriction on special price sales of perishables. It will also be necessary for the recipient countries to provide adequate assurances and safeguards that any special supplies should be directed to the people in need, should not be resold in the ordinary commercial market, and should not be re-exported.

41. This Commission is impressed by the fact that for certain nutritional programmes receiving countries may need to be assured of supplies at special prices over a series of years. In such instances the arrangements between supplying and receiving countries would have to cover an agreed period of years as well as agreed quantities, the agreement being binding subject only to a waiver covering specified contingencies such as war or crop failure, and the first charge for commercial demand. Exporting countries should, in addition to using their best endeavours to programme the requisite output, hold sufficient stocks to minimize the risk of recourse to the waiver.

42. Certain countries importing at commercial prices have stressed that the principle enunciated by the Commission in paragraph 39 that the exporters' costs should not be recovered by transferring any part of the burden to the price of commercial exports, is essential to their co-operation in special price arrangements. Safeguards are necessary such as those contained in paragraph 27 of this Chapter and in sections 3 (d) and 5 of the guiding principles of an International Wheat Agreement as set out in Chapter 6, but the specific safeguards will vary from commodity to commodity.

43. Generally speaking, therefore, we envisage the following procedure: F.A.O. on the basis of requests for foodstuffs under the special price programme would examine (a) the proposed nutritional programmes; (b) the nutritional needs of the country concerned; (c) the country's programmes for agricultural production and development. On the other hand, it would also be for F.A.O. to inquire what quantities of what commodities the exporting countries were prepared to make available at special prices. The findings

on both the supply and demand would then be passed to the World Food Council for recommendations as to action. In the light of the general policy laid down by the Annual Session of the F.A.O. Conference the findings and recommendations for a given commodity would then be passed over to the appropriate Commodity Council, if any. The World Food Council should take into consideration the interrelationships between commodities and, subject to the primary need to secure a minimum calorie intake for human beings, should explore opportunities of linking special price programmes for feedstuffs with corresponding programmes for livestock production.

44. We recommend that in the cases of commodities suitable for special price sales, the conditions under which that commodity might be made available should be written into the international commodity agreement or arrangement. On this basis the Commodity Council (or corresponding body) would endeavour to reach an understanding among its members as to the quantities to be sold at special prices, the prices to be applied and other general terms and conditions of such sales. Detailed arrangements would be left for settlement between supplying and receiving countries, on condition, however, that they always remain within the framework of a multilateral arrangement.

45. Two further points have to be considered in connection with such a plan:

(a) Some delegations have pointed out that circumstances may arise in a period of international balance of payments difficulties where sales at special prices would operate to intensify these difficulties. F.A.O. should therefore maintain contact with the International Monetary Fund on the possible monetary repercussions of international sales at special prices; and members should, upon request, submit the respective financial arrangements to the I.M.F. and, without being required to invalidate existing contracts, should give weight to any opinion which I.M.F. might express on the matter.

(b) We recognise that the principle by which each exporting country bears the loss, if any, on its own sale at special prices has the consequence that, should the chief exporters of a product be unable to afford to sell any considerable quantity at prices involving substantial losses, a special price disposal arrangement would be unable to proceed. Nevertheless, this Commission does not feel able to make any recommendation to meet this difficulty.

General Conclusions

46. We believe that the procedure suggested in this Chapter provides in respect of international agricultural commodity policy, an adequate framework in which to achieve the general Copenhagen objectives. In the light of what has been said in previous chapters we wish to emphasize once again that our main object must be to promote an expanding world economy and the establishment and maintenance in all countries of high levels of production and real income. In the field of agriculture and nutrition, this involves international consultation at two stages: first, annual review of national production and consumption programmes; and second, continuous studies and, where necessary, joint planning about particular commodities entering into world trade.

47. In the past, international consultation has too frequently been concerned with plans for dealing with burdensome surpluses by curtailing production. We believe, on the contrary, that the more serious danger facing

the world is a general tendency to play for safety and not expand production fast enough. In our view, international consultation and commodity arrangements are needed for the following reasons: (i) to harmonize conflicting national policies; (ii) to remove the fear of future burdensome surpluses; (iii) to avoid an unbalanced development of world agriculture; (iv) to promote a general all-round expansion of production of foodstuffs and of raw materials to meet the needs of expanding industry; and (v) to advance the levels of nutrition and living of the peoples of the world.

CHAPTER 6. RECOMMENDATIONS IN REGARD TO CERTAIN COMMODITIES

1. This chapter sets out the Commission's conclusions and recommendations in regard to particular commodities.

2. In the case of wheat we have secured a wide measure of agreement between the delegations of the principal exporting and importing countries as to certain provisions, which might be considered in drawing up a new International Wheat Agreement, and we believe that these may be found useful in negotiations at the forthcoming meeting of the International Wheat Council. Similarly we believe that our agreed recommendations about sugar may help the International Sugar Council in drawing up a revised international sugar agreement.

3. The other products examined are: rice, livestock products, oils and fats, fish, tea and cocoa, cotton, wool and timber. In addition we have included brief references to fruits and vegetables. We regret that in the time available it has not been possible to deal with corn (maize), rye, barley and other grains, or with tobacco and coffee, all of which require further study by F.A.O.

4. Each of these commodities, or groups of commodities, has special features of interest and difficulty, and we have not attempted to make exhaustive studies or reach final conclusions. Our main concern has been to underline points of outstanding importance and to leave further examination of the highly technical problems involved to Commodity Councils or to specialized international study groups. A number of technical memoranda have been prepared for us which have been a valuable guide in our deliberations on several commodities. For those of the most important products, wheat, rice and sugar, we reproduce these background memoranda as Appendices V, VI, and VII respectively.

WHEAT

Introduction

5. The Preparatory Commission has given much thought to the problem of wheat both because of its importance in world trade and because a new International Wheat Agreement will shortly be negotiated under the auspices of the existing Wheat Council. The Commission has had before it the attached Report on Wheat (Appendix V) giving the background to these discussions and has also heard evidence from the Secretary of the International Wheat Council.

6. In nearly all countries, wheat has for long been subject to varying degrees of protection and price support. This has resulted in widely divergent prices in different countries and has been a persistent source of intergovernmental friction. Wheat production reacts slowly to declining prices. In times of general depression, producers tend to maintain and even to increase their

acreage under wheat in an effort to expand reduced incomes. Wheat consumption is also inelastic, particularly in countries with a high standard of nutrition. In times of prosperity, poorer countries may eat more, but direct human consumption in richer countries may even be reduced. In bad times, poorer countries cannot afford to increase their consumption. A small excess of supply, therefore, results in a disproportionate fall of prices, particularly where there is no profitable alternative open to producers.

7. Before the war, there was a chronic surplus and attempts were made to stabilize prices by limitation of production and exports. Under present conditions of world scarcity the first objective must be to increase production and consumption without endangering producers' welfare and then to accumulate sufficient reserves to insure against recurrence of famine and crop failures.

8. Adequate but not excessive stocks are also needed to promote price stability. The Commission is convinced that the solution of the world's wheat problem is to be sought in the direction of steady expansion of consumption rather than in restriction of production.

9. The Commission puts forward the following recommendations as to the guiding principles that, in its opinion, should be followed in drawing up an International Wheat Agreement:

Guiding Principles of an International Wheat Agreement.

(1) Objectives

(a) To co-ordinate and reinforce national policies designed to promote greater stability of wheat prices.

(b) To establish a coordinated system of world wheat reserves through national holding of stocks adequate to insure against crop failures and famine.

(c) To promote increased consumption, paying attention particularly to the nutritional needs and programmes of members.

(d) To provide security for efficient producers and to encourage the use of areas unsuited to wheat production for more suitable products.

(2) Prices

A price range should be negotiated for international transactions in wheat. For this purpose a basic minimum (floor) price and a basic maximum (ceiling) price would be set for one grade of wheat agreed to be most representative of international wheat prices and price schedules would be calculated by the International Wheat Council for other selected representative grades. These schedules would be binding for the trade in wheat among members of the agreement.

(3) Stocks

(a) Exporting and importing members should agree on maximum and minimum amounts of stocks of old wheat to be held at the end of their respective crop years, allowing for such stocks to fall below such minima or increase above such maxima, in certain cases specifically agreed upon, such as crop failures or droughts and bumper crops respectively.

(b) As part of their minimum stocks, each member should undertake to hold an agreed quantity as part of an international famine reserve which, in case of need, would be made available on appropriate terms to a member country, or at the Council's discretion to non-members.

(c) Within the spread between the agreed minimum and maximum stocks, provision should be made for special price stabilization reserves, to an amount limited by agreement, to be accumulated by each member when wheat prices in international trade drop to the floor, and to be sold when these prices rise to the ceiling. Such reserves should be accumulated first by exporting countries, and only upon request by an exporting country that has filled this reserve to the agreed level would importing countries have to fill up their price stabilization reserves. Similarly, when prices are at the ceiling, importing countries will draw on their price stabilization reserve for their own requirements before calling on exporting countries to sell from their price stabilization reserves. Importing countries should have the right to claim balance of payment waiver under conditions to be determined. Exporting countries should have the right to draw on their Price Stabilization Reserve to meet their domestic requirements and maintain their normal export trade.

(d) Any exporting member may give notice to the Wheat Council that instead of accumulating stocks, either wholly or in part, for a price stabilization reserve, it intends to use its best endeavours to maintain its production over a stated period in excess of that required for its domestic consumption and commercial export sales anticipated at the floor price. With the approval of the Wheat Council, such member may thereupon sell out of this excess production, agreed amounts for an agreed period, at special prices below the floor price, under the rules established for such sales, and subject to the understanding that the first claim on its total exportable supply is for the satisfaction of commercial demand at the floor price, allowance being made for minor day-to-day price fluctuations and for prices to rise if, in spite of such first claim, the supply does not suffice to keep the price down to the floor level.

(e) Members should undertake to keep the Wheat Council continuously informed of the amount, quality and location of their reserves to the end that the Wheat Council keep full international accounts of such reserves in terms of wheat and keep members informed of their position in regard to the obligations as to the accumulation, holding, or disposal of such stocks.

(4) *Export Supplies*

The Agreement should recognize the principle of management of export supplies, when for any export-programme year—in spite of the provisions made in (3) (c) above for the management of stocks—a condition of world scarcity or world surplus of wheat is anticipated. The former might be agreed to be the case when export supply is or is expected to be smaller than import demand at the ceiling price; and the latter when export supply is or is expected to be larger than import demand at the floor price, taking into account in both cases any obligations under Section (3) above.

(a) Under conditions of scarcity, recourse should be had to international programming and allocation of export supplies.

(b) Under conditions of surplus the Wheat Council should estimate the anticipated total import demand and bring into operation a previously agreed system of export quotas.

(i) This overall export quota should be allocated among the various exporting members on the basis of percentages to be agreed. Export quantities unlikely to be shipped by a member during its crop year might be transferred to other members.

(ii) The overall export quota should be adjusted during any crop year if it becomes apparent that the import demand is larger or smaller than was assumed when the overall quota was determined.

(iii) Exporting and importing countries shall take appropriate measures to make quotas or any adjustment thereof immediately effective.

(iv) As a transitory measure during the changeover from the current wheat scarcity to the prospective wheat surplus, quotas might, with the approval of the Wheat Council, be used to prevent too sudden a fall in prices.

(c) Purchases from and sales to non-members should be regulated by providing that—irrespective of price—exporting members sell to non-members in times of scarcity only after the normal demands of importing members have been satisfied and importing members buy from non-members in times of surplus only after they have purchased their normal import supply from exporting members. ("Normal" as used in this and other paragraphs would need to be defined in the Agreement.)

(5) *Sales at Special Prices*

(a) Under conditions of surplus as defined above, provision should be made enabling exporting members to sell for agreed periods, quantities of wheat, to be agreed by the Wheat Council, at special prices (below the floor price), also to be agreed by the Wheat Council, to Governments of countries undertaking to use such wheat for nutritional needs and programmes approved by F.A.O., which should also keep in touch with the I.M.F. in conformity with Paragraph 45 of Chapter 5.

(b) Appropriate conditions, to be agreed by the Wheat Council, should be attached to the supply of wheat at special prices. They may include undertakings:—

(i) To desist from any exports of wheat as long as they import wheat at the special prices and to prevent the wheat sold at the special prices from being resold in regular markets;

(ii) To continue their normal imports of wheat at current market prices; and

(iii) To pass on the benefit resulting from the reduced price in full to the ultimate consumers in accordance with the approved programme.

(c) The Wheat Council should be authorized and directed to supervise all special price sales of wheat and provision should be made for any member to call for an investigation by the Wheat Council as to whether the general principles of the particular conditions attaching to such sales are being fulfilled. F.A.O. should be authorized to supervise special price sales in regard to (iii) above.

(6) *Provision for Periodical Review*

(a) If a world surplus of wheat persists over an agreed period, consultation among exporting and importing members should aim at improving this situation by such means as—

(i) Review of stock-holding provisions.

(ii) Review of production policies of both importing and exporting countries in co-operation with F.A.O., looking especially at gradual shifts away from uneconomic wheat production to production of more suitable crops.

(iii) Review of the price-range, looking at lowering either the price ceiling or both the price floor and ceiling.

(b) If a world scarcity of wheat exists or is expected, consultation among exporting and importing members should aim at alleviating this situation by such means as—

(i) Temporary allocation of supplies on an equitable basis and use of the famine reserve;

(ii) Review of stock-holding provisions and release of stocks;

(iii) Stimulation of production in suitable areas and, if necessary, reconsideration of the price-range.

(7) Duration, renewal and termination

(a) The Wheat Agreement should be concluded for a period not in excess of five years.

(b) If there is a prospect for the continuation of a world surplus of wheat beyond the duration of a current wheat agreement, members should begin to renegotiate it early enough to permit conclusion of the new agreement before the expiration of the old one.

(c) Should the agreement not be renewed at a time when stocks were above agreed minima, countries should remain under obligation to reduce their stocks only at an agreed rate. This obligation might be embodied in a memorandum of agreement attached to the wheat agreement proper.

SUGAR

10. The production of sugar from cane or beet can be undertaken in nearly every country. Cane sugar is produced in nearly all tropical areas and beet sugar in many of the temperate countries. Only a few countries produce an export surplus of beet sugar, the most important being Czechoslovakia and Poland. The principal exporters of cane sugar are Cuba, Java, Australia, South Africa, Dominican Republic, Philippines, Brazil, Peru and many British, French and U.S. overseas territories.

11. Costs of production vary widely in different countries mainly owing to differences of climate, environment and labour conditions. In many countries where costs are high, production is efficient and the higher costs are the result of a better standard of living. A high level of technical efficiency and of capital investment is required for the production of sugar, and in both cane producing and beet producing countries the industry is generally of long standing and forms an integral part of the agricultural economy.

12. In the years before the war, it is estimated that about 90 per cent. of the world's total sugar production was subsidized or protected by tariff provisions, or subsidies in various forms.

13. From 1927 to the outbreak of World War II, the world sugar problem was one of over-production, in relation to effective demand, and excessive stocks. Surplus supplies, both actual and potential, hung over the market and prevented world prices rising to a remunerative level. Repeated efforts were made by producers' organizations and international conferences to regulate supplies coming on to the market in such a way as to raise prices to a level which would give producers a reasonable return. But these efforts, which culminated in the International Sugar Agreement of 1937, met with little success. One of the chief difficulties encountered was the low consumption of sugar in many countries, induced by varying degrees of indirect taxation. Instead of being a cheap staple-food, sugar has been for large sections of the world's population a semi-luxury, singled out by governments as a means of raising revenue by import duties and excise taxes.

14. If retail prices could be sufficiently reduced, potential increase in annual consumption over the next five to ten years is estimated at anything between five and ten million metric tons. World consumption would then reach 35/40 million metric tons compared with 30 million before the war.

15. In 1945, sugar production in the world had been reduced as a result of the war to less than twenty-five million metric tons and supplies were the smallest in relation to requirements for twenty-five years. On the basis of rationed demand, world requirements in 1945/46 have been about two million metric tons in excess of supplies, and although 1946 production will be slightly larger than the low total of 1945, the supply situation will not be eased before 1948 and probably not until 1949. It is estimated that for North America and Europe, supplies subject to allocation in 1947 will be only about ten per cent. higher than in 1946.

16. When production in Java, Philippines and Formosa is restored to the pre-war level of $3\frac{1}{2}$ million metric tons and the European beet sugar industry is rehabilitated, world production may reach 34 million metric tons, or about 4 million metric tons above pre-war; and, unless there is a marked expansion of demand, a surplus situation may once more be reached. Consumption in the western Hemisphere is likely to exceed the pre-war level. Apart from existing sources, the flow of supplies from other cane and beet producing countries could be easily increased once producers were reasonably assured of a market outlet. There is thus a prospect of achieving a marked expansion in world production and consumption of sugar over the next ten years. That, at least, in the Commission's view, is the aim which governments of producing and consuming countries should set themselves.

17. The chief objectives of the various international sugar schemes from 1927 onwards, including the International Sugar Agreement of 1937, were to secure a proper balance between supply and demand and a remunerative price to efficient producers. During the whole of this period the problem was one of heavy surplus stocks, but although no practical steps were taken to expand consumption the International Sugar Council's efforts were gradually achieving equilibrium. If their efforts had not been interrupted by the outbreak of war, stocks might soon have been reduced to manageable proportions and the world price restored to a fairer level for producers.

18. In the future, regulation of production and exports in such a way as to promote orderly marketing at fair and stable prices will undoubtedly be required if only to insure co-ordination of national policies and avoid friction between the governments of exporting countries.

19. The Commission have not attempted to consider in detail how far the provisions of the existing International Sugar Agreement may need modification in the light of the new situation created by the war. They recommend that the existing International Sugar Council should proceed to review the present and prospective world sugar position and prepare a revision of the International Sugar Agreement in accordance with Article 3 of the Protocol of August 31st, 1944. This Article provides that in the revision of the Agreement account should be taken of any general principles of commodity policy embodied in any Agreements which may be concluded under the auspices of the United Nations.

20. The Commission has given some consideration to the application of the principle of buffer stocks to the case of sugar. In the opinion of producing countries the creation of buffer stocks is unlikely to solve the problem of over-production and price stabilization. But if provision is made in any future

International Sugar Agreement for domestic regulation of production and international allocation of export quotas, adequate stocks would be an essential feature of the scheme, so as to maintain a balance between supply and demand and so as to ensure that, both under normal conditions and in case of emergency, sugar is always available at prices fair to producers and consumers alike. The Commission recommends that the International Sugar Council should make provision from year to year as may be required, as to the stocks that should be carried both by producing and importing countries within upper and lower limits to be established under the Agreement. Stocks should be prescribed by Agreement, having regard to the circumstances of each country.

The Recommendations of the Commission are as follows:

1. That as soon as possible the International Sugar Council should proceed to review the present and prospective world sugar position and prepare a revision of the International Sugar Agreement in accordance with Article 3 of the Protocol of August 31st, 1944, taking into account any general principles of commodity policy embodied in any Agreements which may be concluded under the auspices of the United Nations.
2. That Governments should consider measures to increase world consumption of sugar, by such means, among others, as reduction of burdensome taxes and of existing trade barriers.
3. That appropriate steps should be taken to maintain a reasonable degree of stability of prices at a level fair to producers and consumers.
4. That regulation of exports be carried out by means of quotas to be negotiated through the International Sugar Council.
5. That while the method of regulating production in each country is a matter of domestic concern, the level of national production should be subject to periodical consultation and negotiation under the auspices of the I.S.C.
6. That, in their review of national production levels, the I.S.C. and the governments concerned should pay due regard not only to the extent to which the maintenance of a particular level of production is essential to the economy of each country, but also to the criterion of efficient production.
7. That in order to maintain a balance between supply and demand, and to ensure that, both under normal conditions and in case of emergency, sugar is always available at prices fair to producers and consumers alike, the I.S.C. should make provision from year to year as may be required, as to the stocks, that should be carried by producing and importing countries alike within upper and lower limits to be established under the Agreement. Stocks should be prescribed by agreement having regard to the circumstances of each country.

Note by the Delegation of Cuba

The Delegation of Cuba approves the Conclusions and Recommendations on Sugar, with the understanding that the definition of "fair price" is that appearing in Resolution XVII of the Third Inter-American Conference on Agriculture, held at Caracas, Venezuela, in 1944, whose Paragraph 2 (b) reads:

"That the selling price of products be such that it will furnish those countries which are in a position to maintain efficient production a reasonable income in order to maintain the purchasing power of their people as importers and consumers, at an adequate level sufficient to meet the requirements of a decent living; which objective is attained principally on the

basis of such working conditions as permit workers to be free from want and by furnishing farmers sufficient income to meet their needs and to maintain an even tempo of expanded production. Such price must make it possible, nevertheless, for the consumer countries to obtain under conditions of stability and regularity, the products which they may have to import."

RICE

21. The Commission is impressed with the urgent need for increasing the production of rice, particularly in Southeast Asia. Before the war, 95 percent. of the world's rice was grown and consumed in the East; and world trade, which constituted about 7 percent. of total world production, was mainly confined to Asia. The principal rice exporting countries were Burma, Indo-China and Siam which provided the marginal supply of the staple diet of millions in India, China, Indonesia, Malaya, Ceylon and the Philippines.

22. Rice is grown in the East in small plots by millions of subsistence farmers. Consumers of rice outnumber those of wheat. In some areas the per caput consumption of rice was tending to decline; and, since there is little carryover of stocks from year to year, crop failures often resulted in localised or widespread famines where there was only a small marginal deficiency in supply.

23. At the present time, there is an acute shortage of rice, and the supply available for allocation by the International Emergency Food Council in 1946-47 is barely 40 percent. of the minimum import requirements of the rice-eating countries. Non-Asiatic sources of supply now play a more important part in rice exports than they did before the war, and there has been a reversal of the pre-war flow of rice exports from East to West. Current prices vary widely from one country to another and the world rice market is in a highly abnormal state.

24. The rice industry of the East suffered great damage as result of the war and Japanese invasion, and India and other importing countries were cut off from the surplus producing countries occupied by the enemy. It will take a number of years before the industry is rehabilitated and adequate reserves are built up for the prevention of famines. It has been urged by representatives of rice producing countries that better organization of marketing and the introduction of guaranteed prices for producers holds out the best hope of stimulating rice production. In any case, it seems probable that governments will play a more active role in the future in stimulating production and controlling prices of rice. The Commission has had before it a Proposal for a Rice Board in Southeast Asia, drawn up by the Indian Delegation, which would be designed to secure closer coordination between governments in connection with the production, distribution and price of rice in Southeast Asia.

25. The Commission have not attempted to reach definite conclusions in regard to the creation of a Rice Board, or as to the methods by which it would operate, but they consider that the proposal undoubtedly merits detailed examination. It would be necessary to examine how far it would be practicable to guarantee a basic price, or range of prices for rice in Southeast Asia, and what steps could be taken to establish a famine reserve. Plans for increasing production and consumption and for improving marketing methods; and questions relating to rice culture, milling practices, and storage would also need to be considered,

The Commission accordingly recommends:

(a) That a Preparatory Committee or Study Group of experts representing Governments should be constituted by the Director-General of F.A.O. in the immediate future, with a view to holding in South-east Asia an international conference of the major rice producing and consuming countries as speedily as possible within the next six months.

(b) The Preparatory Committee should prepare the Agenda for the proposed conference and bring together,

(i) statistics of production, trade and prices,

(ii) data relating to marketing methods and plans for increased production, price stabilization and establishment of famine reserves, and

(iii) scientific and technical information regarding rice culture, milling practices and storage.

LIVESTOCK PRODUCTS

26. This section of the report summarizes the Commission's conclusions and recommendations with regard to edible livestock products. The recent World Food Survey has shown how great is the scope for increased consumption of these products, given world prosperity and a rising standard of nutrition. Production of livestock products could also be increased very considerably, given reasonable confidence in future demand.

27. As the standard of nutrition rises, there is an increased consumption of livestock products; but when, as at present in many parts of the world, the standard of nutrition is low, production of crops for direct human consumption tends to take priority over their use for livestock, since a great part of the calorie value of feeding grains is lost by converting them into animal products. Consumption of these products is thus to some extent a barometer of the level of nutrition.

28. Prices of animal products play a vital part in determining agricultural incomes, both because livestock make use of and fertilize so large a part of the total arable areas, and also because livestock especially pigs and poultry, provide a supplementary market for absorbing grains not required for direct human consumption. The market for livestock products is one of the decisive factors in determining grain prices.

29. Demand for livestock products, unlike that for bread-grains, is elastic and responsive to price changes, particularly in the lower income groups of most countries. In the past consumption has shown an upward tendency in most countries, varying with the state of employment and the level of wages. On the supply side animal products are characterized by the following features:—first, their cost tends to be relatively high and depends on the quantity and price of feedingstuffs available; second, there is a relatively long period of production and a joint-product relationship between many of them; and third, the products are perishable and their storage and transportation are expensive. All these constitute reasons for reducing as far as possible the inherent uncertainty as to prices and market outlets.

30. The chief feature of world trade in meat and dairy products is the importance of the U.K. as the largest importing country. Before the war, U.K. took 80 per cent. of total world meat exports, 80 per cent. of the butter entering into world trade, 53 per cent. of the cheese and 80 per cent. of the eggs. The six largest exporters of meat, bacon, butter, cheese and eggs to the U.K. market were Argentine, Australia, New Zealand, Denmark,

Canada and the Netherlands. Most European producing countries, including the U.K., require to import animal feedingstuffs for their livestock industry. In the six largest exporting countries (and to a lesser extent in other countries of Europe and South America), the export of livestock products, depending on highly organized shipping and storage facilities, plays an important part in their total economy, and a steady and expanding demand at stable prices is of special concern. Until the depression of the thirties, prices were determined by the interaction of supply and demand in a competitive market free from import duties or quota restrictions. After 1932, the Ottawa Agreement and the U.K.-Argentine Trade Agreement resulted in quantitative regulation of imports of beef, mutton, lamb, bacon and hams by agreement between the U.K. and the principal exporting countries.

31. The pattern of world trade and production has been greatly changed by the war. On the Continent of Europe, livestock numbers in all categories have been drastically reduced. Pigs and poultry have suffered more than cattle partly owing to the depredations of invading armies and partly owing to acute shortage of grain. Meat production as a whole on the Continent of Europe, is only about 65 per cent. of pre-war. In the United Kingdom, it is about 70 per cent. In Australia, despite the droughts in 1944 and 1945, production has been maintained at pre-war levels, while in New Zealand it is also about the same. In the United States meat production has increased by 30 per cent. and in Canada 50 per cent. Production of milk and milk products has fallen by about one-third in Continental Europe, but has increased by about 10 per cent. in the United States. Egg production in Europe has fallen by nearly 50 per cent. owing to the severe reduction in poultry numbers, but in the United States it has risen by nearly 60 per cent. and in Canada and Australia it has also increased substantially.

32. The aim of European Governments is to restore their livestock numbers and their production of meat and dairy products up to their pre-war level or even further. But this cannot be accomplished so long as there is a shortage of grain, even for human consumption, and a scarcity of other feeding-stuffs particularly oil-cakes. In the principal exporting countries outside Europe, some increase in production of meat and dairy products is expected, but this may be offset to some extent by increased domestic consumption. In most exporting countries there is a potential capacity for increased dairy production. In Australia, land settlement policies and farm techniques are especially directed to increase the number of dairy farms and dairy cattle.

33. During the war, the British Ministry of Food became the sole buyer of meat and dairy products for the United Kingdom and State trading is still being continued. Long-term contracts have been negotiated with Australia, New Zealand, Canada, Argentina and Denmark. These contracts have been made between governments and cover either the whole exportable surplus or a specified quantity. Prices are generally fixed either for the duration of the contract, or for two years ahead with provision for review thereafter. (A contract for a specified quantity for immediate delivery is sometimes called "bulk purchase".) Quantities delivered under these contracts have, thus far, been subject to review by the Combined Food Board and later by the International Emergency Food Council.

34. The Commission have given careful consideration to the question whether long-term contracts might contribute towards promoting stability of prices and providing an assured market for producers and an assured source of supply for consumers. Divergent views have been expressed on this matter. The countries that have entered into long-term contracts have emphasized the

advantages, but other countries have expressed doubts as to these advantages and have emphasized the undesirable effects. An important aim of long-term contracts between governments is to extend into the international field the principle of an assured market for producers similar to that applied on a national basis in many countries. But some delegations claimed that they tend to interfere with adjustment of production towards the fullest and most efficient utilization of livestock resources. The chief dangers to avoid are discriminatory and prejudicial effects on countries which are not parties to the contracts.

35. To meet these dangers the Commission recommends that long-term contracts should be made in conformity with the principles of the suggested I.T.O. Charter, and the following conditions might be considered in helping to minimize discriminatory effects:

(a) That contracts be negotiated within the framework of international trade policy and multilateral commodity arrangements;

(b) That there should be some limitation on the proportion of a producing country's exportable surplus that an importing country may contract;

(c) That when economic conditions have become more normal, the price at which products are sold under contracts having the same terms shall be the same to all countries, unless with the approval of the appropriate international authority price concessions are admitted in particular instances;

(d) That importers shall not build up large stocks for the purpose of depressing prices;

(e) That long-term contracts should include a clause providing that the terms and conditions shall be subject to review and adjustment at stated times.

36. The Commission wish to draw attention to the need for continuous studies, both nationally by governments and internationally by F.A.O., with the object of securing closer co-ordination between the livestock policies of the principal exporting and importing countries. So far as possible national studies should be undertaken in accordance with a common plan and these should then be collated and co-ordinated by F.A.O. The Commission suggests that special attention should be given to the following matters:

(a) Studies of present and prospective livestock numbers (based on age, type and sex composition) so that each government may be acquainted with the approximate trend of production in other countries contributing to world trade in livestock products. This information is of great importance in attempting to plan future output.

(b) Periodical reviews of national programmes and policies relating to production and consumption of edible livestock products.

(c) Price relationships between livestock products and fodder grains and other feedingstuffs.

(d) Economic and technical aspects of processing, preservation, storage and transportation of livestock products.

(e) Review of world trade in livestock products and outlook reports.

37. The Commission suggest that studies under (d) above may be helpful to the International Bank for Reconstruction and Development in assessing the importance of developing storage and marketing facilities for perishable products in particular countries.

38. The Commission recommend that a special group of experts representing the governments having a substantial interest in the production, trade and consumption of edible livestock products should be assembled in preparation for the next conference of F.A.O. in order to present a detailed report on the problems connected with meat, bacon, butter, cheese and eggs entering into world trade.

39. Some delegations have expressed the view that a surplus of some livestock products, e.g., eggs and pig meat, may be expected in the foreseeable future. If this view is confirmed at the meeting of experts proposed above, the Commission recommend that appropriate steps should be taken without loss of time, to appoint a Study Group (possibly the same group of experts) and that they should consider the possibility of preparing an international commodity arrangement to deal with the particular livestock products for which surpluses are expected.

40. The Commission recommend that in drawing up any international arrangement dealing with surpluses of livestock products, as and when they may arise, special attention should be given to the possibility of contributing to a world famine reserve and to programmes for disposal of surpluses for approved nutritional projects. It appears to the Commission that processed milk, particularly dried separated milk, would be specially suitable both as a famine reserve and for approved nutritional projects. Later, it might be possible to include preserved eggs and canned meats.

OILS AND FATS

41. The Commission's examination of the critical situation of oilseeds, oils and fats has been greatly helped by the fact that the Fats, Oils and Feeds Committee of the International Emergency Food Council has been meeting at the same time to consider measures for dealing with the present world shortage. The Commission's conclusions and recommendations, which are largely based on the work of this Committee and of the I.E.F.C. secretariat, are set out below.

42. In the five years before the war, world production of all fats and oils averaged about 20 million metric tons in terms of oil equivalent. Vegetable oils made up three-fifths, and animal fats and marine oils the remaining two-fifths of the total. World exports in the five years 1935-39 averaged 6 million metric tons in terms of oil equivalent. Vegetable oils constituted three-quarters of the total.

43. Between the two wars, increased production was accompanied by expanding consumption at declining prices. In the early thirties primary producers had to bear the brunt of the serious decline in prices. From 1932 onwards, tariff duties, preferences, import quotas and restrictions tended to change the direction of international trade, and prices of oils and fats within different countries became, to some extent, independent.

44. Oils and fats were in ample supply until 1940. There was a steady increase in the production of coconut and oil-palm products specially on plantations, and world production of whale oil, mainly in the Antarctic, from 1930 onwards was more than double the 1925-29 level. During the war, shipping difficulties reduced exports and led to some shift in tropical and sub-tropical countries from export crops to rice and cereal crops for local consumption. During the Japanese occupation soya bean production in

Manchuria decreased and oil-palm plantations in Malaya and in the Netherland East Indies were neglected or abandoned. There has been little inducement for planting coconut and other palms during the last seven years. Rehabilitation of oils and fats production in the Far East may take a long time. Elsewhere in the world, particularly in the United States and South America, apart from a decrease in Argentine linseed acreage, there has been a rapid increase in production under the stimulus of war-time demand and high prices. In Europe, including U.K. and the U.S.S.R., there has been a sharp decline in animal fat production. The net long-term effect of these wartime influences is difficult to assess.

45. The shortage of oils and fats at the present time is acute. World production in 1946 was just over 16 million metric tons in terms of oil equivalent or about 75 per cent. of the pre-war level. The resumption of copra production in Southeast Asia, increased oilseed planting in the Western Hemisphere and a slight recovery of fat production in Europe is expected in 1947. In Greece and other Mediterranean countries, olive oil production has not yet recovered from the effects of the war. In 1946, quantities available for export were less than 3 million metric tons compared with over 6 million metric tons before the war. It is estimated that to restore the pre-war per head fat utilization, total imports of more than $7\frac{1}{2}$ million metric tons would be necessary.

46. The obstacles to rehabilitation are many and complex. General world food shortage makes it necessary to concentrate efforts on increased production of bread grains and rice. Lack of consumer goods to act as incentives, shortage of machinery and transport equipment and obsolescence of processing facilities are also serious handicaps which are accentuated by shortage of foreign exchange. To overcome these difficulties a more aggressive attack on the problem is needed involving a concerted plan of mutual aid between governments. The Commission welcomes the decision of the I.E.F.C. to undertake a more detailed review of the position, and to formulate practical proposals for intergovernmental action within the next two months.

47. As regards the long-term problem with which this Commission is concerned, we believe that in the case of oils and fats, there is a very strong case for providing an assured market for producers and for giving them some security against the risk of a violent fall of prices resulting from any business depression or temporary overproduction. Among the plans to be considered are national and international price support measures, or long-term contracts between exporting and importing countries negotiated in conformity with multilateral principles. Measures of this kind may be specially suitable in the case of olive oil, palm oil and coconut oil, which have a long production period and depend on sales spread over many years to earn a return on the capital invested. Intergovernmental consultation on planting policies is needed in the case of oil-bearing crops.

48. Lastly, the Commission recommend that the valuable research work and intergovernmental consultation now being carried out through the medium of the I.E.F.C. should be continued as a permanent feature of F.A.O.'s activities. Review of planting and production programmes and study of the probable trend of demand in this highly complex group of related commodities will supply the essential background to help governments in framing concerted policies designed to bring about orderly expansion of world production of oils and fats.

FISH

49. The annual aggregate catch of fish has been estimated at approximately 40,000 million lbs. two-thirds of which is utilized for food. This amount yields 10,500 million lbs. of food products as consumed. More than 20 per cent. of this world aggregate enters into International Trade, including such products as salted fish, canned fish, fish meal, fish oils, and vitamin products, frozen fish assuming a lesser position, but one of growing importance.

50. Fish as a nutritive protein is of great importance. It is basic in the diet of certain peoples, and constitutes an important part of the food intake of others. Ninety-eight per cent. of the recorded catch is yielded by the Northern Hemisphere, while much of it is consumed in the Southern Hemisphere.

51. The production of fisheries' products is important to the economy of many countries and vital to some of them. A measure of its importance can be had by examining the per caput production. For Iceland this is 6,223 lbs., for Newfoundland, 1,525 lbs., for Norway, 680 lbs., Japan 111, and Canada 109. This under-estimates the importance of fishing to particular groups in these countries.

52. Of the products entering into international trade one of the most troublesome is salted fish, particularly salted cod and related species. Salted fish is a low-priced concentrated protein food containing sodium chloride, and is suitable and necessary to the diet of people who live in hot countries. Its consumption forms part of a long established dietary pattern and it is unlikely that its place will be taken by alternative foodstuffs. Examples of such countries will be found in the Caribbean area, in South America and in South Africa. Other types of cured fish find wide acceptance in countries of temperate climate such as France, the Iberian Peninsula, the Mediterranean and to a lesser extent, the United States. There are certain other countries where considerable potential demand exists because salted fish furnishes a cheap source of high-class protein.

53. Since 1920, the price for salted fish declined steadily until the outbreak of World War II and the decline showed no recovery from the depression year of 1932. This was particularly serious for such countries as Newfoundland, Norway, Iceland and the Faroes, since the economy of these countries was largely tied up with salted fish. The decline was not accompanied by a diminution of total production; in some areas there was a tendency towards an increase in production in order to keep up income. The low prices failed to support the primary producer and it became necessary for the Governments of most of the producing countries to support their fishermen by subsidies.

54. When World War II caused a scarcity owing to the disappearance of the production of Norway and the shift in production to other countries, prices for salted fish increased to a point where production subsidies were no longer needed. This made it necessary for certain importing countries to subsidize consumption, while other countries passed along the increases to the consumer.

55. The history of salted fish marketing during the interwar period was marked by strong competition and rivalry between producing countries. There existed many barriers to the free flow of trade in the form of quota restrictions, prohibitive tariffs and other devices. To a large extent trade

depended upon bilateral agreements, many of which would be prohibited under the I.T.O. Draft Charter, unless they were provided for under an international commodity arrangement. In the absence of such an agreement it is probable that chaotic marketing conditions would prevail.

56. Not much is known about the demand for this product though certain evidence indicates that it is relatively inelastic. The demand for salted fish seems to be related to the prices realized for tropical products such as sugar and coffee. There is need for a comprehensive study of the situation upon which a more orderly system of marketing through appropriate agreements between producers and consumers can be based.

57. The Commission recommends that the Fisheries Division of F.A.O. should undertake comprehensive investigation and analysis of the salted fish situation. Such study should give consideration to all factors influencing production, price, consumption, and trade, including the inter-relation between salted fish and fresh, frozen and filleted fish, with a view to ascertaining whether in the near future the salted fish situation will correspond to the group of conditions set forth in Article 46 of the Charter.

58. The Commission recommends that an interim report on this matter be submitted to the Governments by July 15, 1947, and that a further report be submitted by December 1, 1947.

59. If the interim report should indicate that in the near future the salted fish situation will correspond to the set of conditions set forth in Article 46 of the I.T.O. Draft Charter, the F.A.O. should recommend to the Governments that a Study Group be established in accordance with Chapter VII of the I.T.O. Draft Charter to convene immediately after the publication of the further report.

60. Such Study Group should consider, on the basis of the reports, whether a commodity agreement with respect to salted fish is desirable or feasible, and if so what provisions are appropriate with a view to bringing about an expansion of production and consumption with more orderly trading at prices which are satisfactory to both producers and consumers, including the possibility of adding salted fish to any world famine reserves and of programmes for disposal of surpluses for approved nutritional projects.

61. The problems connected with international trade in other types of fish and fish products are more complicated. Trade in fresh and frozen fish is to a large extent limited to trade between contiguous countries but with the continued expansion in the use of refrigerated storage and transport, it can be expected that fresh and frozen fish will play an increasingly important part in world trade. It is, therefore, recommended that, when progress has been made towards a solution of the problems of the salted fish trade, the Fisheries Division of F.A.O. direct its attention to the problems relating to international trade in other fish and fish products.

FRUITS AND VEGETABLES

62. The framing of international commodity arrangements covering fruits and vegetables was not a problem of special study by the Commission. However, we think that it may be possible to extend to a number of such commodities some of the essential principles of multilateral commodity arrangements. Dried and canned fruits, citrus fruits and apples are examples among fruits entering into world trade. In addition we have in mind tomatoes and other vegetables traded between countries of Europe.

63. Attention needs to be given, both by national governments and by F.A.O., to techniques for distributing such commodities as citrus and tomato concentrates at special prices for nutritional programmes. The Commission is of the opinion that in developing commodity arrangements of this type, special attention should be given to the possibility of disposing of temporary surpluses of a particular perishable at special prices for approved nutritional programmes. In the case of some commodities, citrus fruits for example, producing countries may often be willing to dispose of fruit of small size and poor colour at an extremely low price, providing importing countries will pay the cost of processing into concentrates and distribute the supplies to needy groups through special food programmes.

64. The possibility of framing multilateral intergovernmental commodity arrangements for particular fruits and vegetables needs further consideration. The Commission, therefore, recommends that the F.A.O. should initiate, through committees representing governments concerned, studies of the problems involved for a selected group of those fruits and vegetables which are important in international trade.

TEA

65. Before the war, India, Ceylon and N.E. Indies supplied 80 per cent. of world tea exports. China and Japan also exported appreciable quantities of tea. Nearly 60 per cent. of total world exports went to the United Kingdom and largely owing to the inelastic demand in the United Kingdom where tea is a habitual drink, world consumption showed little change in the ten years preceding the war. During the war, consumption has increased in some of the producing countries and in South and Central Africa.

66. Prices were highly susceptible to changes in production, which before 1933, despite some voluntary attempts at restriction, was not subject to regulation. Thus under pressure of increased production and the general depression, prices fell by 50 per cent. between 1924 and 1932 and many tea estates in India and Ceylon were forced into bankruptcy.

67. The International Tea Agreement formed in 1933 by the producers of India, Ceylon and the N.E. Indies with the support of the respective governments fixed standard quotas based upon exports in the years 1929, 1930 and 1931. Actual quotas fixed were a percentage of the standard quota and were adjusted from year to year in accordance with the trend in world demand and the stock position. For this purpose the International Tea Committee was empowered to collect information about production, consumption, stocks and trade. The agreement also provided for restriction of new planting and for measures to increase consumption of tea. As a result of the operation of the Agreement, from 1933 until the outbreak of war, the price of tea gradually improved and a better, if not entirely satisfactory, balance between production and consumption was brought about. The absence of China and Japan from the Agreement, however, created a leak in supplies and speculative price improvements still remained possible.

68. From the outbreak of the war until December 1946, prices were fixed by long-term contracts negotiated between the British Ministry of Food and the producers of India, Ceylon and British East Africa, first in respect of U.K. requirements, and later when supplies from N.E. Indies were cut off, for the whole of the export surpluses of these countries. Prices were fixed on the basis of the price levels ruling in 1936-38 with upward adjustments to cover increased wartime costs of production and handling charges, etc. The Ministry's purchases were distributed to consuming countries at cost under a system of allocation.

69. Mainly owing to destruction and neglect of tea plantations in the N.E. Indies world tea exports have fallen by about a quarter from pre-war and there is at present a considerable gap between production and requirements which it may take several years to close. Immediate steps for the regulation of production are not required; India and Ceylon have been on a virtually unrestricted production basis since 1942-43. Both these countries have been opposed to an extension of the long-term contracts with Great Britain which expired in December, 1946 and wish to return to the trading methods which existed before the war through Public Auctions in London, Calcutta, and Colombo.

70. With the present gap between production and consumption, a return to normal trading is likely to cause a further sharp advance in tea prices to abnormal levels. Production in India and Ceylon and probably in China and Japan will be expanded and a resumption of production in N.E. Indies might well bring about a rapid fall in prices, possibly to slump levels. Thus, the danger of price fluctuations followed by heavy over-production cannot be ignored.

71. Despite some weaknesses, notably that it was a producers' arrangement and not an inter-governmental organization and that China and Japan did not associate themselves with it, the International Tea Agreement worked smoothly up to the outbreak of war. Not only did it succeed in reducing burdensome stocks and improving the price of tea from an uneconomically low figure, but also by its organization of market intelligence it was able to adjust quotas and facilitate the regulation of production more flexibly than some other international commodity agreements. Any future international tea arrangements for regulating production and exports of tea, should take account of the experience of the International Tea Committee.

72. The Commission's conclusions and recommendations are as follows:

(1) The International Tea Committee should in consultation with F.A.O. proceed to review the present and prospective tea position and, if the governments mainly concerned agree, prepare a revision of the International Tea Agreement.

(2) In this event the International Tea Committee should become an inter-governmental organization and should include representatives of other tea producing countries as well as of the major tea consuming countries.

(3) In view of the potential increase in production, consideration should be given to the question of expanding consumption of tea, by reduction in import and excise duties or otherwise, particularly in those countries where the demand is elastic.

(4) That in their review of national production plans, the International Tea Committee and the governments concerned should pay due regard not only to the extent to which tea production plays an important part in the economy of each country, but also to the criterion of efficient production and economic use of resources.

COCOA

73. Cocoa is almost entirely an export crop produced in the tropics of Africa and Latin America. British West Africa produces nearly half of the total crop and Brazil about one-third of the remainder. About 40 per cent. of total exports before the war went to U.S.A. and nearly 20 per cent. to the U.K. Germany and the Netherlands were the other principal importers. Since it takes about eight years for trees to mature fully, supply in the short run is relatively inelastic. On the other hand, demand for cocoa is fairly elastic and shows an upward tendency as the standard of living rises.

74. The cocoa industry is of great importance to West Africa, and in the Gold Coast it contributes about 60 per cent. of the total value of exports. A fall in price to slump levels has a serious effect on living standards. Before the war there was no international control and marketing arrangements were defective. In West Africa, the crop is produced by a large number of small producers among whom co-operative arrangements for the sale of their cocoa are of relatively recent origin. Their bargaining position was, therefore, weak compared with buying firms in West Africa which up to 1937 operated "pool" agreements for the purchase of cocoa. Consequently, the prices paid to natives for cocoa tended to be unduly low in relation to those obtaining on the terminal markets in New York, London and Amsterdam.

75. The difficulty of securing adjustments in the short term supply position combined with speculative activity in the future market was responsible for violent fluctuations in world cocoa prices. Between 1926 and 1938 monthly average prices in the London market varied between 80s. 6d. and 18s. 6d. per cwt., despite the fact that the ratio of stocks to world consumption was reasonably stable during this period. Following the hold-up of the 1937 crop by the native producers, exports from the Gold Coast fell to only one-fifth of normal and there was a short-lived boom in prices followed by a collapse in 1938 when the pressure of supplies increased. As a result of this development a Commission on the Marketing of West African Cocoa was appointed, the buying-pool was suspended and legislation was passed to secure orderly liquidation of stocks.

76. During the early part of the war after the collapse of the important markets in continental Europe, cocoa was in surplus supply and a scheme of control was introduced in West Africa. From 1943 onwards, there developed an increasing tendency for demand to outrun supply owing to a decline in output in West Africa, while consumption increased. Allocations through the C.F.B. machinery had to be adopted and prices were held at a steady level by the U.S. ceiling price. The fall in West African production, due to wartime restrictions and to disease in the Gold Coast, has resulted in an acute cocoa shortage which may persist for some time, in view of the number of years required for new trees to reach maturity. With the removal of the U.S. price ceiling, prices have risen to extremely high levels and allocations are being continued through the I.E.F.C.

77. The British Government is proposing to continue in a modified form the wartime control machinery for British West African cocoa. This is designed to stabilize prices paid to producers by means of a Price Equalization Fund operated by a West African Board which will also promote co-operative marketing methods among producers. During the present period of high prices of cocoa, a substantial reserve fund is being built up to be drawn upon when prices fall.

78. Protective duties and import quotas have not in the past been as serious an obstacle to world trade in cocoa as in many other commodities. If cocoa prices can be kept reasonably stable at a level affording a fair remuneration to producers, there is no reason why a steady increase in world consumption should not take place. The price equalisation scheme proposed for British West Africa should provide an interesting experiment in price stabilization, and the Commission suggest that it should be further studied by F.A.O. Owing to the special characteristics of cocoa production, a balance between consumption and production cannot readily be achieved, and fluctuations in price will be difficult to prevent. But it might prove possible to

keep price variations within a comparatively narrow range by means of an international commodity arrangement to which both the producing countries and the major importing countries would be parties.

79. The Commission's Conclusions and Recommendations are as follows:

(1) All practicable steps should be taken to prevent a further rise in the world price from the present high level.

(2) F.A.O. should keep the world cocoa situation under constant review and make its findings available to member governments.

(3) In view of the possibility that international action may be necessary to provide machinery to promote security for cocoa producers and at the same time to assure adequate protection to consumers, even in the absence of a burdensome surplus, interested member governments should consider the establishment of an international study group for the purpose of recommending appropriate action.

COTTON

80. World cotton production during the thirty years before the war was subject to sharp annual fluctuations but showed a gradual upward trend. Cotton is grown in many different areas, but more than four-fifths of world output is concentrated in six countries, (U.S.A., India, Egypt, Brazil, China, and U.S.S.R.). There were some shifts of production in the inter-war period; especially during the early thirties when the reduction of cotton acreage under the U.S. production control programme was more than offset by increased output in other countries. World production averaged 30.9 million bales (of 478 pounds) in 1934-38 with a record crop of 38.6 million bales in 1937.

81. The proportion of cotton entering into world trade fell from 60 per cent. of total production in 1909-13 to only just over one-third in 1934-38. These changes were linked with shifts of cotton manufacture, and especially with the development of textile industries in India, China, Brazil, and other cotton growing countries. However, despite the decline in cotton trade relative to production, the value of world cotton exports in 1938 was higher than the export value for any other agricultural product or non-agricultural raw material, with the single exception of oil.

82. Until the 1930's there was little government intervention in cotton production and trade. Cotton consumption was much reduced during the depression and the growing world surplus was left largely in the hands of the U.S.A. Government intervention in cotton production and trade, which developed in the 1930's, was carried further during the war and still continues. Direct or indirect production control exists in most countries. Price-support measures are in force in U.S.A., Egypt, India, Mexico, Argentina and Brazil. Probably as much as two-thirds of all the cotton moving in international trade in 1946-47 will be imported by government agencies in the recipient countries, and the remaining third will be taken by countries exercising some sort of control over quantity, source, or price.

83. Throughout the war, production of cotton in the world continued to outrun consumption. By 1945, world stocks had reached the record figure of 28.1 million bales, equivalent to one year's consumption. During the last two seasons production has fallen sharply. The 1945-46 crop of 20.4 million is the smallest since 1923-24, and the 1946-47 crop of 22.1 million bales will again be below pre-war. Apart from weather conditions, this reduction is to be explained by the effects of war devastation, the diversion

of cotton areas to urgently needed food crops, and the shortage of farm labour, especially in the U.S.A. World stocks of raw cotton, particularly in the lower grades, are still heavy. On July 31, 1936, world stocks were estimated at 23.7 million bales, compared with 28.1 million bales the previous year. The decrease in world stocks reflects a rise in world consumption by about 2.2 million bales in the 1945-46 season, accompanied by a decline in production of 3.8 million bales. A preliminary forecast of 1946-47 mill consumption is 27 million bales, compared with an average of 28 million bales before the war. World stocks on July 1, 1947 are tentatively put at 17 million bales which would be no longer in excess of pre-war.

84. The most urgent need is for rapid rehabilitation and expansion of cotton textile production in Europe and parts of Asia where manufacturing capacity has been drastically reduced by war damage and an acute shortage of skilled labour and spare parts. If and when manufacturing capacity in Europe and Asia has been restored, and in some cases expanded, total world demand in a period of world prosperity may be considerably in excess of the prewar level.

85. On the other hand, under less favourable general economic conditions, it might happen that a continuation of price support policies and a series of large harvests, combined with competition from synthetic fibres, would again bring about a burdensome surplus of raw cotton. In view of the many factors of uncertainty in the world cotton situation, it seems to the Commission that there is need for consultation between exporting and importing countries with a view to reaching a satisfactory arrangement based on the principles set out in Chapter V of this report to the extent that they may be applicable to the raw cotton situation.

86. A beginning has already been made in this direction. Following a meeting held in September, 1939, on the initiative of the U.S. Government, an International Cotton Advisory Committee was set up in 1940. At its fifth meeting in May, 1946, at which 26 countries were represented, it was resolved to establish an Executive Committee, representing six importing and six exporting countries: Argentina, Brazil, Belgium, Canada, China, Czechoslovakia, Egypt, France, India, Peru, the U.K. and the U.S.A. The U.S.S.R., which had formerly participated was, on this occasion, represented by observers. The Executive Committee was charged with:

(i) Establishing practical co-operation with F.A.O. and with other organizations concerned with the world cotton situation.

(ii) Providing a medium for exchange of views in regard to current developments in the international cotton situation.

(iii) Further developing the work on an instrument of international collaboration to deal with the world cotton situation.

It was also recommended that a secretariat be established and that a budget of \$50,000 be authorised, for the first year.

87. These recommendations have not yet been implemented in full, but the Executive Committee has been established and is already functioning.

88. The Commission recommends that there should be close co-operation between F.A.O. and the International Cotton Advisory Committee, particularly in regard to studies relating to acreage under cotton, the use of land for cotton in relation to other crops, and other aspects of world cotton production, trade and consumption.

89. Since it is expected that the International Cotton Advisory Committee will shortly be reviewing the position, the Commission confines itself to the following recommendations:

(i) We desire to emphasize the urgent need for rehabilitation and expansion of cotton textile manufacturing facilities in many parts of the world.

(ii) We recommend that governments should implement the decisions of the Fifth Meeting of the International Cotton Advisory Committee, and make financial contributions for administrative purposes.

(iii) We recommend that F.A.O. should be represented at the meetings of the International Cotton Advisory Committee and should cooperate with the Secretariat in economic, statistical and technical studies.

(iv) In preparing an International Cotton Agreement, we recommend that Governments represented on the Advisory Committee should bear in mind the recommendations set out in this report (as well as those contained in the I.T.O. Draft Charter) and consider how far they may be applicable to raw cotton.

WOOL

90. With the exception of a short period at the end of the last war, when surplus wool was being marketed by the British Australian Wool Realization Association (B.A.W.R.A.), the world wool market during the inter-war period was not subject to any form of control by producing interests or by Governments. Wool supplies from the main exporting countries were sold year by year, and end-of-season stocks were small. At the same time, fluctuations in wool prices were often sharp and erratic.

91. In normal times, shipments from the three main wool exporting Dominions account for about three-quarters of world apparel wool trade and for over 60 per cent. of trade in all wools. Methods of marketing Dominion wool are, therefore, an important factor in shaping the world wool market.

92. A few weeks after the beginning of the Second World War, the British Government purchased the entire Australian, New Zealand and South African wool clips for the duration of the war and one wool year thereafter. In the U.S., the domestic clip was first guaranteed and later taken over by the Government. Consumption in the U.S., Australia, Argentina, and India increased. But owing to shortage of shipping, loss of the European and Japanese markets, and restriction of consumption in the U.K., world consumption during the war absorbed only about two-thirds of current supplies from the chief clothing wool exporting countries.

93. By the summer of 1945, the overall accumulation of world stocks had reached a total equal to about two years' supply for the world market with some types relatively more abundant than others. In April/May, 1945, the Governments of the U.K., Australia, New Zealand and South Africa held a conference in London to draw up a common plan for stock disposal and an agency called Joint Organization (U.K.-Dominion Wool Disposals Ltd.) was set up. This is a limited company formed by, and acting on behalf of, the Governments of the U.K., Australia, New Zealand and South Africa. The Joint Organization has succeeded the British Government as the owner of all Dominion wool stocks accumulated under war conditions. Auction sales of Dominion wool have now been restored but some measure of centralized management has been retained. Quantities of wool offered at auction, and minimum reserve prices for each lot based on official appraisal are determined by the Joint Organization, which also assumes responsibility for lifting the unsold surplus of "new clip" wool from the market.

94. World wool sales during the first postwar season were in excess of current output but it is generally assumed that mill consumption was running considerably below the level of wool sales. World stocks of raw wool are still heavy while the supply of manufactured wool goods is insufficient to meet world demand.

95. We are in full agreement with the view that the problems of world wool production, trade and consumption should be reviewed in the widest terms by international consultation. The Commission notes that at a conference held in London in November, 1946, representatives of the Governments of 14 wool producing and consuming countries discussed the world outlook and agreed on the desirability of establishing an international Study Group for further intergovernmental review of the wool situation. There was general agreement on the need for avoiding excessive price fluctuations and for expanding wool consumption.

96. Our conclusions and recommendations are as follows:

(i) we endorse the conclusions of the London Wool Conference of November, 1946, and support the recommendation that an international Study Group be established at an early date;

(ii) we emphasize the desirability of further concerted measures aiming at the expansion of world wool consumption;

(iii) we recommend that the Food and Agricultural Organization be invited to take part in the work of the Wool Study Group and that close co-operation should be established between F.A.O. and existing organizations in the wool field. In particular, we stress the need for studies of the interrelationship in demand, and competition in use, of wool and other textile raw materials;

(iv) we have not considered how far the general principles set out in our Report may be applicable to wool, but we note that the plan adopted for disposal of surplus stocks, particularly the maintenance of a price range by regulatory sales and purchases by the Joint Organization, bears some features in common with the operation of an international buffer stock agency. We think that experience of the working of the plan may prove useful in future studies of buffer stock proposals.

TIMBER

97. The timber situation presents the same problem which has confronted us in regard to several other commodities, with the important difference that, as food scarcities begin to subside, the world-wide timber shortage is becoming more serious. In 1946 the timber deficit has delayed European reconstruction and building programmes in the U.S. and other countries. The gap between import requirements and export supplies of lumber is likely to grow larger as reconstruction of devastated areas in Europe and Asia attains its full momentum.

98. To some extent, the deficit could be alleviated by a well organized system of distribution and allocation, by transport and credit facilities, and through the introduction of technical improvements which would permit a better utilization of available timber supplies. International consultation is needed to achieve these results. However, they alone are not enough to solve the timber crisis.

99. It will undoubtedly be necessary to subject the now accessible forests to continued overcutting and to open up hitherto undeveloped forest resources with the utmost speed. The world demand for forest products has shown

a steady increase against a steady decrease of forest reserves in Europe and North America. Although the decrease of forest reserves in Europe and North America is partly offset by better forest management, careful consideration will have to be given to the development of new forest-areas based on a world survey of the forestry situation.

100. In its long-range aspects, the timber situation shows resemblances to the position at the end of World War I. Throughout the 1920's lumber markets and prices were exceptionally good, not only on account of great building activity, but because Russian timber, which prior to 1914 had contributed close to 20 per cent. of Europe's imports, had disappeared from the market. This situation led to various re-adjustments which in turn, greatly aggravated the effects of the world economic depression upon forests and forest industries. For just when building trades and lumber requirements started to fall off in connection with the general depression, the Soviet Union reappeared as a large supplier on the world's lumber market. The cut-throat competition between exporting countries which ensued, had the result that within a few months, lumber prices c.i.f. London fell from £18 to £7 per standard.

101. The present deficit is not only due to high lumber requirements but to the fact that the Soviet Union and the United States have almost discontinued their usual exports, and have both become net importers of lumber. To obtain additional exports from new sources, considerable long-term investments would be required. Roads would have to be built, equipment provided, new plants erected and transportation facilities created. Developments on this scale would require intergovernmental consultation and co-operation.

102. The lumber situation thus calls for immediate action based on international programmes which give simultaneous attention to the short-term and the long-range aspects of the problem. F.A.O.'s Division of Forestry and Forest Products has submitted a world survey of the forestry situation to F.A.O.'s Annual Conference at Copenhagen. It has initiated a programme of periodical statistics and market reports with regard to forest products, and has started informal discussions between a number of governments with regard to necessary action. We understand that an international timber conference to discuss specific arrangements which would facilitate European reconstruction programmes will be called in the near future.

103. Such a conference, if well attended by government representatives from European timber exporting and importing countries as well as from North America, can mark an important beginning in intergovernmental consultation. It should be the starting point for continuous co-ordination of government programmes and activities with regard to forestry and forest products, and should be followed by other regional conferences which should ultimately result in the establishment of a real world forest policy. We understand that special consideration will be given to a long-term forestry programme for yet undeveloped forest resources especially those of South America and the Far East. A comparative survey of the existing forestry practices in tropical regions should be a valuable guide in determining forest policy for these areas.

104. Since we believe that forest products should be included in the annual programme review of F.A.O. and its World Food Council we suggest that the forthcoming international timber conference should consider how these commodities could be covered most effectively by F.A.O. and that the Director-General should deal especially with this question in his Report to the next Annual Conference of F.A.O.

CHAPTER 7. ORGANIZATION

1. We have advocated far-reaching programmes for the expansion of agriculture and the improvement of the nutritional conditions of the peoples. We have urged the necessity for industrial development to parallel and balance the developments in agriculture. We have examined the financial problems involved, both national and international, in facilitating this great expansion of consumption and production. We have recommended inter-governmental arrangements for a number of commodities, and have made suggestions, both generally and in regard to individual products, which should contribute to the twin objectives of price stabilization and increasing consumption. We have recommended the inclusion in commodity agreements of special provisions for transference of foodstuffs from the great producing areas to the areas of great need. We do not, however, consider it necessary to recommend the formation of any new specialized international agency to deal with these problems, because we believe they can be dealt with by existing United Nations agencies or new machinery within the Food and Agriculture Organization itself.

2. One reason why there is hesitation in embarking on programmes of general economic expansion is uncertainty as to the future. So many patterns of production and trade have been destroyed by the war; the rapid advance of industrial technology is constantly creating new productive possibilities; many countries have political aspirations leading them to adopt new economic programmes. All this means that man's ability to invent and to create has outrun his ability to adjust the organization of society.

3. Moreover, as was pointed out earlier, governments are everywhere assuming new responsibilities: responsibility for development programmes; responsibility for restoring or improving the balance of trade; responsibility for improving and stabilizing the income of their farmers; responsibility for raising the purchasing power and the nutritional status of their people. All this creates new needs for cooperation, through intergovernmental consultation at the international level.

4. These needs have already been recognised and several specialised international agencies have been set up to provide information, help raise standards of living, and bring governments together in a discussion of specific problems. Among the first of these United Nations agencies was F.A.O. with its objectives of raising levels of nutrition and standards of living, of improving agricultural production and distribution, and of bettering the condition of rural populations. We now have the International Monetary Fund to stabilise currencies and to assist governments with temporary difficulties in their balances of payments. There is the International Bank to provide credits for reconstruction and development. There is the International Labour Organisation to improve labour legislation and conditions of work in all countries, and there is the projected International Trade Organisation to facilitate the expansion of production, trade, and employment by the reduction of trade barriers and by other means. There is the World Health Organisation to safeguard and improve the health of the peoples, and the United Nations Educational, Scientific and Cultural Organisation to promote and co-ordinate educational and scientific programmes. In addition to the specialised agencies, there is the United Nations' Economic and Social Council with responsibility for co-ordinating their activities. As was stated in the Charter of the United Nations, the Economic and Social Council was established "to achieve international co-operation in solving international problems of an economic, social, cultural, or humanitarian character, and in promoting

and encouraging respect for human rights and for fundamental freedoms for all without distinction as to race, sex, language, or religion"; and "to co-ordinate the activities of the specialised agencies through consultation with and recommendations to such agencies and through recommendations to the General Assembly and to the Members of the United Nations."

5. We cannot emphasize too strongly the importance we attach to the work of the Economic and Social Council in reviewing and co-ordinating the activities of all specialized agencies. We have stressed the interlocking relationships between the problems that confront us in the fields of agriculture and industrial development, full employment, international finance and international trade. It would be unwise to allow activities to be conducted in watertight compartments. At many points in earlier Chapters we have pointed out instances where collaboration is essential, between United Nations agencies as well as between governments. The Commission is glad to note the recent decision of the Economic and Social Council to establish a Standing Committee of Administrative Officers, composed of the Secretary-General of the United Nations and the corresponding officials of the specialized agencies. We trust that this body will concern itself not only with co-ordination of administrative matters, but also with co-ordination of policies and programmes.

6. There is another function which can be usefully performed by the Economic and Social Council in co-ordinating certain activities of the F.A.O. and the proposed International Trade Organization. In this connection the Commission has taken note of the resolution of the London Session of the Preparatory Committee for an International Conference on Trade and Employment calling for the establishment of an Interim Co-ordinating Committee for International Commodity Arrangements, and believes:

(i) That, pending the establishment of the proposed International Trade Organization, a temporary Co-ordinating Committee, or similar body, should be created promptly by the United Nations; which Committee should keep itself informed of consultation or action in respect of intergovernmental arrangements for agricultural and non-agricultural primary commodities, and facilitate by appropriate means such consultation or action;

(ii) That this Co-ordinating Committee should be comprised of three highly-qualified persons, one of whom should be nominated by the Food and Agriculture Organization, and should be concerned, in particular with agricultural primary commodities.

Proposals for Further Machinery within F.A.O.

7. When the idea of F.A.O. was first agreed upon at Hot Springs, it was emphasized that F.A.O., in compiling reports from member nations on their national policies and programmes, should seek to "contribute to international collaboration both on a regional and on a world basis in the field of agricultural production," and that nations "should progressively adjust the allocation of agricultural resources to conform to a long-term co-ordinated production plan for the best use of their resources on a world scale, based on better diets for their own people and on the international demand for nutritionally better food." (Hot Springs Resolutions XIV and XV.) This idea was reiterated in the recommendations of the Interim Commission and at the Quebec and Copenhagen sessions of the F.A.O. Conference, especially in the Quebec resolution on Integration and Co-ordination of Agricultural Programmes and Policies.* Furthermore, Article I of the F.A.O. Constitution

* F.A.O., Report of the First Session of the Conference, pp. 14-16.

provides " 2. The Organization shall promote and, where appropriate, shall recommend national and international action with respect to . . . (f) the adoption of international policies with respect to agricultural commodity arrangements."

8. In the spirit of these undertakings, we have already recommended measures to encourage expansion of agricultural production, food consumption and intensified agricultural and industrial development in the under-developed countries, in Chapters 2, 3 and 4 of our Report. We have made proposals in Chapters 5 and 6 regarding commodity policy, including the stabilization of agricultural prices. To make these various measures fully effective, what is done by each member nation and by each Commodity Council or other commodity group must fit together into a consistent world pattern. The Commission, therefore, recommends that intergovernmental consultation on plans and programmes for agriculture, for nutrition and for international trade in agricultural products should form an integral and important part of the regular sessions of the F.A.O. Conference.

9. This intergovernmental consultation would involve consideration of national programmes and plans for agriculture and nutrition, of the general economic situation and of major commodity problems. It would also involve consideration of plans and developments with reference to international trade in farm products, and of the requirements and supplies of materials and machinery important for farm production. Out of these discussions should come an appreciation of the direction of changes which might need to be made in some national programmes or international commodity operations to make them more consistent with one another. No effort should be made to bind any member nation as to the subsequent revisions to be made in its programme. The discussions should, however, provide each nation with a broader basis for reviewing its plan and programmes so that Governments, if they see fit, may make mutually advantageous adjustments of their policies in the light of the world's needs.

10. While, however, we consider that such annual intergovernmental consultation would mark a great step toward achieving the objectives of the Copenhagen Conference, we recognise that between the annual F.A.O. Conferences it will be necessary to provide for more frequent intergovernmental review of the world food and agricultural situation. In the following paragraphs, therefore, we outline our proposals for a special annual review at the F.A.O. Conference and for the establishment of a Council of the F.A.O. to be known generally as "The World Food Council."

Annual Programme Review by F.A.O.

11. We recommend that the Conference itself be the principal forum for a review by all the Member nations of F.A.O. to consider the reports of the Director-General and of the World Food Council. This annual programme review which should embrace national and intergovernmental programmes and plans and should form an integral part of each regular Session of the F.A.O. Conference, and be participated in by government representatives responsible for national agricultural and food policy. In addition to observers for interested international organisations, observers for commodity councils and study groups should also participate, but without vote.

12. The purpose of the review would be to consider:—

(i) The situation and outlook for production, trade in and consumption of those agricultural commodities which widely affect the interests of producers and consumers;

(ii) The domestic policies and programmes which Member nations have adopted or intend to adopt and their effects upon the economies of other nations.

(iii) Requests submitted for initiation of special price programmes and all matters relevant thereto as set out in Chapter 5 of this Report.

13. The review should, so far as possible, co-ordinate developments in national programmes and intergovernmental commodity operations. The discussion at this annual meeting would be based upon an annual report on agricultural and nutritional policy and programmes, especially prepared for it by F.A.O. and circulated to governments in advance of the meeting; also a report submitted by the proposed World Food Council. It is desirable that the meeting should have before it full reports on their activities from any authorities studying or operating intergovernmental commodity agreements or arrangements (on the lines of Chapter 5 and 6 of the Report). Representatives of these bodies should also be present at the meeting to supplement the information that has been furnished, and they should be entitled to take part in the discussions. It is recommended that the Conference resolve itself into a Committee of the Whole soon after its opening, to consider and discuss the Report already circulated on world agricultural and nutritional plans and policies. We recommend that the Chairman of the World Food Council should customarily preside over the Committee of the Whole at the end of his year of office. (See paragraph 21.) During this discussion and debate, which might take several days, the major attention of the Conference should be given to this subject. The Conference could then appoint such Commissions and Committees as it desired to explore further the policy matters which had been discussed in the general debate.

14. We recommend that a first attempt be made to conduct such a general review at the regular 1947 Session of the F.A.O. Conference. In this connection, it is important to choose a date which will be most effective for such a review. There is no date which can be chosen which suits equally well both Northern and Southern Hemisphere countries. Bearing in mind that the information to be obtained from governments has to be assembled and analysed by F.A.O., probably a date in October or early November would be found most convenient for the programme reviews.

15. The practicability of this timetable will depend on the full and prompt co-operation of Member governments. The interval between the delivery of the reports by governments, and the annual intergovernmental consultation must necessarily be short, and if there were any failure to keep to a strict timetable in submitting these reports, the procedure contemplated for intergovernmental consultation might be greatly weakened.

16. The procedure for collecting, analysing and co-ordinating national programmes must necessarily be worked out gradually. In the initial stages statements from governments outlining their policies and programmes will, in respect of most countries, not be very detailed and specific. It should, however, be possible, even from the beginning, for Member governments to indicate major features of their domestic policies, and to indicate the steps which they are taking towards the achievement of the objectives laid down. Even on this basis it should be possible to make a start in co-ordinating production towards the objective of an expanding pattern of world agricultural production, distribution and consumption. After the methods and procedures are more fully developed, the annual review will progressively become more effective.

17. The great merit of this annual review will be that it will enable responsible officials of the Member nations (a) to consider how well their respective national programmes fit together into a coherent world picture and (b) to form an appreciation of how far changes might be needed in national programmes or intergovernmental commodity operations to make them more consistent with one another.

Council of the Food and Agriculture Organization " World Food Council "

18. The Council of F.A.O. should, as indicated in paragraph 10, serve as a connecting link between policy discussions at the annual programme reviews at each regular Session of the F.A.O. Conference. The Council's discussions should provide Member nations, both those participating and those receiving the record of its proceedings, with an opportunity of reviewing current problems emerging between annual reviews. In the following paragraphs, therefore, we make recommendations as to the Council's functions, membership, constitution, and procedure.

19. The duty of the Council shall be (a) to keep under constant review matters within the competence of the annual programme review as set out in paragraph 11, and (b) to tender advice on such matters to Member governments of F.A.O., to intergovernmental Commodity Councils or other commodity authorities and, through the Director-General, to other specialised international agencies. In order to execute these duties the Council will need, *inter alia*, to be empowered by the Conference:—

(i) To aid the Director-General and the F.A.O. staff in preparing the Report and Agenda for the annual intergovernmental policy consultations, as outlined in para. 11 to 17 above;

(ii) To examine current developments in proposed and existing inter-governmental agricultural commodity arrangements, particularly those developments affecting adequacy of food supply, utilisation of food reserves and famine relief, changes in production or pricing policies, and special food programmes for undernourished groups (as outlined in Chapter 5);

(iii) To promote consistency and co-ordination of agricultural commodity policies, national and international, with regard to (a) overall F.A.O. objectives, (b) the interrelationship of production, distribution, and consumption, and (c) interrelationships of agricultural commodities;

(iv) To initiate and authorise groups to study and investigate agricultural commodity situations which are becoming critical, and to propose appropriate action, if necessary, in accordance with Article I (2f) of the F.A.O. Constitution;

(v) To advise on emergency measures such as those relating to the export and import of materials or equipment needed for agricultural production in order to facilitate implementation of national programmes; and, if necessary, to request the Director-General to submit such advice to appropriate Member governments for action.

(vi) To consider any other matters, within its terms of reference, which may be submitted to it by its Chairman or the Director-General.

20. Membership

(i) The Council shall be a body consisting of representatives of 18 member nations of the F.A.O., elected by the Conference. Nations shall be eligible for re-election. Ten members shall constitute a quorum. The Director-General shall be a member *ex officio*, but without vote.

(ii) The following specialised intergovernmental agencies should be invited to send representatives:

International Labour Organisation.

World Health Organisation.

International Bank for Reconstruction and Development.

International Monetary Fund.

Until such time as the proposed International Trade Organisation (I.T.O.) is established, the Economic and Social Council should be invited to send two representatives, one of whom would speak especially for the Preparatory Committee on Trade and Employment (I.T.O.). After the I.T.O. is established, the Economic and Social Council should be invited to send one representative, and the I.T.O. one. These various representatives should take full part in discussion, but without vote.

(iii) Each government Member of F.A.O. not represented on the Council should be entitled to send one observer to attend the Council with a right to submit memoranda, to participate in the discussions if invited to do so by the Council, but without vote.

(iv) The Council should be authorised to invite governments who are not members of the Council and also intergovernmental commodity organisations to submit memoranda or appoint representatives to participate in the discussions of particular items in which they have a special interest.

(v) In order to secure consideration of views of all interests that are concerned in the work of the Council, the Council should be authorised to ascertain the views of the International Federation of Agricultural Producers, the International Co-operative Alliance, the World Federation of Trade Unions, and any other non-governmental organisation with which F.A.O. may establish relationship, in accordance with the Copenhagen resolution on "Relationship with International Nongovernmental Organisations".

Chairman

21. A Chairman and Vice-Chairman shall be elected by the Council from its own members at its first session, and annually thereafter. They shall hold office until the conclusion of the next annual session of the F.A.O. Conference. If the individual officers elected to these offices cannot be present at any meeting, a temporary chairman shall be elected by the members of the Council from among its members present. If other persons are designated by their governments to replace the Chairman or Vice-Chairman as their representatives on the Council, a new election shall be held by the Council to replace them.

Meetings

22. The Council shall meet as required, and at least twice between the annual sessions of the F.A.O. Conference. The Council shall in addition normally meet immediately prior to the annual session of the F.A.O. Conference in order to consider the Director-General's Annual Report on programmes, to consider the agenda for these aspects of the Conference's work and itself to prepare, if it so desires, a report for the Conference. The Council will meet on the call of its Chairman or of the Director-General, or on request submitted in writing to the Director-General by not less than five Member nations of F.A.O. The cost of attendance of members at these meetings shall be borne by the governments which they represent.

23. *Methods of operation*

(i) The Director-General in consultation with the Chairman of the Council shall prepare a draft agenda based upon documentation prepared by him and circulate it to all members of F.A.O. in advance of the meeting together with accompanying documentation. The Council shall make provision for keeping all member nations of the F.A.O. informed of the Council's activities.

(ii) The Director-General shall provide a full-time Secretary to the Council whose duties shall include insuring continuity during the intervals between the meetings of the Council, and the Director-General shall assign staff and provide other services to the Council in the same manner as to the Annual Sessions of the Conference. This procedure will aid full integration and collaboration between the work of the Council and the regular work of the F.A.O. It is important also for the Secretary of the Council to keep continuously in touch with intergovernmental Commodity Councils or study groups and with relevant United Nations agencies.

Amendment to the F.A.O. Constitution and Rules of Procedure

24. The Commission has examined its recommendations regarding the annual programme review and the World Food Council in the light of the Constitution and the Rules of Procedure of F.A.O. We believe that procedural arrangements for the annual programme review can be covered by minor changes in the Rules of Procedure of F.A.O. On the other hand, the proposal for a World Food Council may involve constitutional amendments. Such Constitutional amendments require 120 days' notice before they can be considered and voted on at a Conference. Consideration may need to be given to the position of the Executive Committee of the F.A.O. at the same time that any action is taken to establish the proposed World Food Council. We suggest that the Director-General should in conjunction with the Executive Committee or appropriate member governments, arrange for the preparation of any necessary draft amendments to the F.A.O. Constitution or Rules of Procedure, with a view to their submission in time for their consideration at the next Session of the Conference.

Other Transitional Arrangements

25. In the meantime the Commission suggests that the Director-General of F.A.O. should make the necessary arrangements to insure that the first annual programme review, as outlined in paragraphs 11 to 17 of this Chapter, can be effectively conducted at the 1947 regular Session of the F.A.O. Conference. For this purpose it will be desirable to request Member governments to submit reports on their programmes to F.A.O. in due time. Further, F.A.O. should maintain contact with, and obtain reports from, intergovernmental Commodity Councils and study groups and from the International Emergency Food Council, and in the case of important products not covered by Councils or study groups, to prepare analyses of the situation.

Conclusion

26. With the submission of our Report we feel that we have fulfilled our terms of reference and discharged the duties imposed upon us by the Copenhagen Conference. The Commission therefore now adjourns, subject to reconvening on call of the Director-General after consultation with the governments concerned.

27. In transmitting our Report to the Director-General of F.A.O. for circulation to governments and United Nations agencies, we desire to emphasise that these proposed enlargements in the activities and organisation of F.A.O. are mainly directed towards helping governments to help themselves and toward wide and frequent intergovernmental consultation, without, however, diminishing the fundamental duty of F.A.O. to provide technical information and advice. They have in our view the great merit that they do not create any new specialised international agency, they do not create any division of international responsibility, but they do place firmly upon F.A.O. and upon national governments the duty of putting into effect the objectives of the Copenhagen proposals.

APPENDIX I

LIST OF DELEGATIONS TO THE COMMISSION

The following is a list of the members of delegations to the Commission :

AUSTRALIA	...	Frank W. Bulcock, Director-General of Agriculture, Melbourne.	Member
		W. T. Doig, Assistant Director, Bureau of Agricultural Economics, Canberra.	Alternate
		J. U. Garside, Commercial Counsellor, Australian Embassy, Washington.	Adviser
		J. V. Moroney, Chief of Division of Marketing, Department of Commerce and Agriculture, Canberra.	Adviser
		D. J. Munro, Second Secretary, Australian Embassy, Washington.	Adviser
		J. ff. Richardson, Commercial Attache, Australian Embassy, Washington.	Adviser
BELGIUM	...	Pierre Forthomme, Former Ambassador and Minister, Brussels.	Member
		Lucien C. Coenen, Attache, Belgian Economic Mission, Washington.	Adviser
		Roger Louis Coustry, Director, Ministry of Agriculture, Brussels; Agricultural Attache, Belgian Embassy, Washington.	Adviser
		Leon A. Van Den Berghe, Belgian Embassy, Washington.	Adviser
		Armand Daussin, Financial Counsellor, Belgian Economic Mission, Washington.	Adviser
		J. C. Van Essche, Chief, Food Division, Belgian Economic Mission, Washington.	Adviser
		Gabriel Lefebvre, Counsellor, Ministry of Colonies, Brussels; Chief, Belgian Congo Trade Commission, New York City.	Adviser
		Mrs. J. Gaspar-Bovesse	Secretary to Delegation.
BRAZIL	...	Paulo Froes da Cruz, Agricultural Attache, Brazilian Embassy, Washington.	Member
		Alpheu Domingues, Agricultural Attache, Brazilian Embassy, Washington.	Alternate
CANADA	...	G. S. H. Barton, Deputy Minister of Agriculture, Ottawa.	Member
		J. F. Booth, Associate Director of Marketing, Economics Division, Ottawa.	Adviser
		S. C. Hudon, Agricultural Economist, Department of Agriculture, Ottawa.	Adviser
		George R. Paterson, Commercial Secretary, Canadian Embassy, Washington.	Adviser
		M. W. Sharp, Assistant to the Deputy Minister, Department of Finance, Ottawa.	Adviser
		C. F. Wilson, Director of Wheat and Grain Division, Department of Trade and Commerce, Ottawa.	Adviser
CHINA	...	Chen Chih-mai, Counsellor, Chinese Embassy, Washington.	Member
		Chen Han-ping, Ministry of Food, Nanking	Adviser
		Koo Shou-eng, Ministry of Food, Nanking	Adviser
		Lo Hou-An, Ministry of Food, Nanking	Adviser
		Twanmo Chong, Ministry of Agriculture and Forestry, Nanking.	Adviser
CUBA	...	Guillermo Belt, Ambassador to the United States, Washington.	Member
		Enrique Perez-Cisneros, Commercial Attache, Cuban Embassy, Washington.	Alternate
		Emilio Pando, Division of Foreign Trade, Havana	Alternate
		Ramon G. Osuna, Attache, Cuban Embassy, Washington.	Delegation
			Secretary

CZECHOSLOVAKIA	Vojtech Schlesinger, Chief of Czechoslovak Mission to U.N.R.R.A., Washington.	Member
	Bedrich Krug, First Secretary, Czechoslovak Embassy, Washington.	Alternate
	Jindrich Hoffman, Chief of Division, Ministry of Food, and Deputy Chief of Czechoslovak U.N.R.R.A. Delegation, Washington.	Adviser
	Vaclav Mares, Commercial Attache, Czechoslovak Consulate, New York City.	Adviser
DENMARK	A. P. Jacobsen, Agricultural Counsellor to the Danish Government, Copenhagen.	Member
	Sigurd Christensen, Head of Section, Ministry for Foreign Affairs, Copenhagen.	Alternate
	K. Skovgaard, Royal Veterinary and Agricultural College, Copenhagen.	Alternate
	B. S. Dinesen, Head of Section, Directorate for Fisheries, Copenhagen.	Adviser
	A. Heegsbro Holm, Secretary-General, Agricultural Council, Copenhagen.	Adviser
	Carl Iversen, Professor, Economics, Department University of Copenhagen.	Adviser
	A. F. Kundsén, Head of Section, Agricultural Council, Copenhagen.	Adviser
	Erik Mortensen, Assistant Head of Section, Ministry of Agriculture and Fisheries, Copenhagen.	Adviser
	G. Seidenfaden, Commercial Attache, Danish Legation, Washington.	Adviser
EGYPT	S. Sorensen, Agricultural Attache, Danish Legation, Washington.	Adviser
	His Excellency Senator Saba Pasha Habachi, former Minister of Commerce, Industry and Supply, Cairo.	Member
	Boutros Bey Bassili, Director, Plant Protection Section, Ministry of Agriculture, Cairo.	Alternate
	Abdel Rahman Bey Sirry, Director of Statistics and Agricultural Economics, Ministry of Agriculture, Cairo.	Adviser
	Mohamed Amin Zaky, First Secretary, Egyptian Embassy, Washington.	Adviser
	Mohamed Abdel Aziz Zayed, Director of the Technical Department, Ministry of Commerce and Supplies, Cairo.	Adviser
FRANCE	Francis Louis Closón, Director General, Institute of National Statistics and Economic Studies, Paris.	Member
	Michel Cepede, Chief, Documentation and General Studies Service ; Ministry of Agriculture, Paris.	Alternate
	Eugene Demont, Vice-Chairman, International Emergency Food Council, Washington.	Adviser
	Pierre Henri Dieterlen, Adviser, Ministry of National Economy, Paris.	Adviser
	H. Janton, Adviser, Ministry of National Economy, Paris.	Adviser
	Rene Garnett Lehmann, Deputy Director, French Supply Council, Washington.	Adviser
	Alfred Marc, Deputy Director, Institute of Statistics, Paris.	Adviser
	Louis Rabot, Chief, Marketing Service, Ministry of Agriculture, Paris.	Adviser
	Pierre M. Sinard, Director of Food Supply, Paris, Trade and Distribution, Paris.	Adviser
	P. Siraud, Counsellor, French Embassy, Washington.	Adviser
	Christian Valensi, Financial Attache, French Embassy, Washington.	Adviser
	P. Vidaud, Deputy Officer, Ministry of Overseas Countries, Paris.	Adviser

INDIA	Kailas N. Katju, Minister of Justice, Lucknow ...	Member
	Sir S. V. Ramamurty, Chief Secretary, Government of Madras Province.	Alternate
	A. D. Gorwala, Supply Commissioner and Secretary, Indian Government, Bombay.	Adviser
	Radha Kunud Mookerji, Professor of History, Lucknow University.	Adviser
	Radhakamal Mukerjee, Economic Adviser, Gwalior State, Gwalior.	Adviser
	G. P. Pillai, Reconstruction Officer, Travancore State.	Adviser
	V. K. R. V. Rao, Professor of Economics, University of Delhi, and Food Adviser, Indian Embassy, Washington.	Adviser
	C. M. Singh, Head of Technological Institute, Meerut City.	Adviser
	C. N. Vakil, Professor of Economics and Director, Graduate School of Economics and Sociology, University of Bombay.	Adviser
	Aziz Ahmed, Deputy Secretary, Department of Agriculture, Government of India, New Delhi.	Secretary to Delegation
NETHERLANDS ...	A. H. Boerma, Commissioner for Foreign Agrarian Affairs, Ministry of Agriculture, Fisheries, and Food, The Hague.	Member
	L. A. H. Peters, Agricultural Counsellor, Netherlands Embassy, Washington.	Alternate
	E. C. Zimmerman, Commissioner for the Netherlands Indies.	Alternate
	J. A. P. Franke, Chief of Agriculture Section, Ministry of Agriculture, Fisheries, and Food, The Hague.	Adviser
	Phoa Liong Gie, Economics Adviser to the Government of the Netherlands Indies, Batavia.	Adviser
	A. H. Philipse, Commercial Counsellor, Netherlands Embassy, Washington.	Adviser
	J. Van der Ploeg, Agriculture Service, Department of Economic Affairs, Batavia, Netherlands Indies.	Adviser
	L. R. W. Soutendijk, Financial Counsellor, Netherlands Embassy, Washington.	Adviser
	E. de Vries, University of Agriculture, Wageningen The Netherlands.	Adviser
	J. B. Ritzema van Ikema, Agricultural Attache, Netherlands Embassy, Washington.	Secretary to Delegation
PHILIPPINE REPUBLIC	A. C. Janssen, Ministry of Agriculture, The Hague	Secretary to Delegation
	Joaquine Elizalde, Ambassador to the United States, Washington.	Member
	Narciso Ramos, Minister Counsellor, Philippine Embassy, Washington.	Alternate
	Jose Teodoro, Jr. Urbano A. Zafra, Commercial Attache, Philippine Embassy, Washington.	Adviser
POLAND	Stefan Krolkowski, Principal Economic Adviser to the Minister of Agriculture, Warsaw.	Member
	Leon Domanski, Former Head, Union of Cereals Exporters, Poland.	Adviser
	E. Wiszniewski, Agricultural Attache, Polish Embassy, Washington.	Adviser
UNITED KINGDOM	Harold Wilson, M.P., Parliamentary Secretary, Ministry of Works, London.	Member
	A. N. Duckham, Agricultural Counsellor, British Embassy, Washington.	Adviser
	R. R. Enfield, Ministry of Agriculture and Fisheries, London	Adviser
	A. Gordon Huson, Economic Information Officer, British Embassy, Washington.	Adviser

	Sir John Magowan, Minister, British Embassy, Washington.	Adviser
	Eugene Melville, Colonial Office, London ...	Adviser
	Gordon Munro, Representative of the U.K. Treasury, Washington.	Adviser
	E. L. Sykes, British High Commissioner's Office, Canada.	Adviser
	Jack Taylor, Principal, International Policy Division, Ministry of Food, London.	Adviser
	L. Thompson-McCausland, Bank of England, London.	Adviser
	J. E. Wall, Director of International Policy Division, Ministry of Food, London.	Adviser
	O. L. Williams, Treasury, London ...	Adviser
	P. F. Craig-Martin, Head of Statistics and Intelligence Division, British Food Mission, Washington.	Secretary to Delegation.
	Miss E. Lane ...	Assistant secretary.
	Arthur F. Maddocks ...	Assistant secretary.
UNITED STATES OF AMERICA.	Norris E. Dodd, Under Secretary of Agriculture, Department of Agriculture, Washington.	Member
	Williard L. Thorp, Deputy to the Assistant Secretary for Economic Affairs, Department of State, Washington.	Alternate
	Leslie A. Wheeler, Director, Office of Foreign Agricultural Relations, Department of Agriculture, Washington.	Alternate
	Howard B. Boyd, Director, Office of Price, Department of Agriculture, Washington.	Adviser
	Edward G. Cale, Associate Chief, Division of International Resources, Department of State, Washington.	Adviser
	Joseph D. Coppock, Economic Adviser, Department of State, Washington.	Adviser
	Mrs. Ursula Duffus, Division of International Organization Affairs, Department of State, Washington.	Adviser
	Carl Norton Gibboney, Commodity Arrangements Policy Adviser, Commercial Policy Staff, Department of Commerce, Washington.	Adviser
	James G. Maddox, Special Assistant to the Chief, Bureau of Agricultural Economics, Department of Agriculture, Washington.	Adviser
	Robert Schwenger, Special Assistant to Director in Field of International Trade Negotiations and Organization, Office of Foreign Agricultural Relations, Department of Agriculture, Washington.	Adviser
	Hazel K. Stiebeling, Chief, Bureau of Human Nutrition and Home Economics, Department of Agriculture, Washington.	Observer
	Leroy D. Stinebower, Special Assistant to Under Secretary for Economic Affairs, Department of State, Washington.	Adviser
	Faith M. Williams, Director, Staff of Foreign Labor Conditions, Department of Labor.	Adviser
	Oscar Zaglits, Principal Economist, Office of Foreign Agricultural Relations, Department of Agriculture, Washington.	Adviser
	H. Duncan Wall, Head, Division of Foreign Information and Statistics, Office of Foreign Agricultural Relations, Department of Agriculture, Washington.	Secretary of Delegation.

NON-FAO-MEMBER NATIONS INVITED TO PARTICIPATE AS FULL MEMBERS

ARGENTINA ... (Accepted as ob- servers only).	Rodolfo E. Barbegelata, Agricultural Counsellor, Argentine Embassy, Washington. Juan Scarpati, Economic Counsellor, Argentine Embassy, Washington.
SIAM (Accepted full membership).	Charas Suebsaeng, Veterinary Division, Ministry of Agriculture, Bangkok. Anita Chintakananda, Secretary, Siamese Legation, Alternate Washington.

INTERNATIONAL ORGANIZATIONS

INTERNATIONAL BANK FOR RECON- STRUCTION AND DEVELOPMENT.	Harold B. Rowe	Representative
INTERNATIONAL LABOUR OFFICE.	Mukdim Osmay, Chief of the Agricultural Service of ILO, Montreal.	Representative
INTERNATIONAL MONETARY FUND	E. J. Riches, Economic Adviser, ILO, Montreal ... Ernest de Selliers, Alternate Director, Washington.	Alternate Representative
UNITED NATIONS ECONOMIC AND SOCIAL COUNCIL	Gertrud H. Lovasy W. A. Mackintosh, Chairman, Economic and Employment Commission. A. D. K. Owen, Assistant Secretary-General of Economic Affairs.	Alternate Representative
	Hugh Gosschalk	Alternate
	Richard P. Judd	Alternate
	David Weintraub	Alternate

FAO MEMBER NATION OBSERVERS

DOMINICAN REPUB- LIC.	Rafael A. Espaillet, Minister Counsellor, Embassy of the Dominican Republic, Washington.
GREECE	C. V. Colocotronis, Commercial Attache, Greek Embassy, Washington. A. J. Sbarounis, Financial Adviser, Greek Em- bassy, Washington.
GUATEMALA	E. Lopez-Herrarte, Counsellor, Guatemalan Em- bassy, Washington.
HAITI	Mauclair Zephyrin, First Secretary, Haitian Em- bassy, Washington.
HUNGARY	Paul L. Marik, Counsellor, Legation of Hungary, Washington. Alexander Szasz, Financial Counsellor, Legation of Hungary, Washington.
ICELAND	Magnus V. Magnussøn, First Secretary, Legation of Iceland, Washington.
IRELAND	Thomas V. Commings, Commercial Attache, Irish Legation, Washington.
ITALY	Vincenzo Vogliolo, Commercial Counsellor, Italian Embassy, Washington.
MEXICO	Adolfo M. Alarcon Mendizabal, Assistant Agricul- tural Attache, Mexican Embassy, Washington.
NEW ZEALAND	R. W. Marshall, Director, New Zealand Supply Mission, Washington.
NORWAY	Thorleif Paus, Second Secretary, Norwegian Embassy, Washington. Nils Jangaard, Commercial Attache, Norwegian Embassy, Washington.
PERU	Juan Chavez, Minister, Commercial Counsellor, Peruvian Embassy, Washington.
SWITZERLAND	Werner Fuchss, Commercial Counsellor, Swiss Legation, Washington.
UNION OF SOUTH AFRICA.	Dewald J. Gardner, Agricultural Attache, South African Legation, Washington.
VENEZUELA	Francisco Alvarez-Chacin, First Secretary, Venezuelan Embassy, Washington.

APPENDIX II

EXPLANATORY NOTE CONCERNING THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

(Submitted by the Organization)

1. FAO is the agency of the United Nations responsible for food and agriculture, including fish and marine products, forestry and forest products. It was established to help member nations in :—

“ raising levels of nutrition and standards of living of the peoples under their respective jurisdictions,

“ securing improvements in the efficiency of the production and distribution of all food and agricultural products,

“ bettering the condition of rural populations, and thus contributing toward an expanding world economy.”*

It has 47 members. Its organs are an Annual Conference, an Executive Committee and the Director-General with his staff. The Executive Committee consists of 15 persons (not government representatives) who are elected by the Conference having regard to their administrative experience or other special qualifications.

2. Within the Office there are to be six technical Divisions consisting of Nutrition, Economics and Statistics, Agricultural Production and Research, Forestry and Forest Products, Fisheries, and Rural Welfare (the last not yet established). These deal with the collection, analysis and dissemination of statistical and technical information.

3. With the assistance of these technical Divisions, and within the limits of his resources the Director-General may on request send missions to help governments in drawing up plans for the development of the resources of a country to attain the above objectives, and also send technical advisers to assist governments in dealing with specific technical problems, or arrange for officials from any country with a specific problem to visit other countries where successful action has already been taken in dealing with that problem.

4. In addition to the full-time officials, provisions are made for a roster of experts who are available to be seconded temporarily to FAO for special temporary work such as going to countries on missions, and a roster of institutions from which assistance can be received by drawing on the information they have and by assisting in exchange of students and research workers.

5. The work of each of the technical Divisions is reviewed by Standing Advisory Committees consisting of twelve to fifteen experts drawn from all regions of the world. They serve two purposes. They enable the Director-General to have the best possible advice in each department of the work. And, having participated in the discussions of these Divisions, the experts return to their own country better informed on the whole world position and on the activities of FAO.

6. The Director-General has asked each government to set up a National FAO Committee. The constitution of the Committee is decided by each government, but the model desired by the Director-General is a Central Committee, consisting of senior representatives of government departments with subcommittees dealing with different aspects of the work. The subcommittees could coopt representatives of non-governmental agencies, such as associations of producers, consumers, and technical experts from non-governmental institutions. These Committees study the agricultural and nutrition problems of each country in relation to the economic, educational and social conditions, and advise governments on action needed. From the Central Committee, consisting of government officials, FAO receives the official information required by the Central Organization, and FAO Headquarters sends to these Committees all the information on the activities of FAO and any other special information or assistance which the Committees may ask for.

7. The National FAO Committees are envisaged as grouped into regions. An FAO Regional Office staffed by FAO officials forms a centre at which problems of special importance for the region can be considered by representatives of all the countries within the region.

8. The work of FAO is reviewed at each Annual Conference. An important item of the Conference is a Report by the Director-General on the state of nutrition and agriculture

* Preamble, FAO Constitution.

in different regions. This is based on information which each government adhering to FAO undertakes to submit. From the statement submitted, the Director-General deduces the problems which can be dealt with only by international action and can make recommendations on which action should be taken.

9. In addition to the Organization as outlined above, the Director-General is superimposing a Council of five special advisers each representative of the following regions: Europe, the Middle East, India, China and South America. These will advise and assist the Director-General in directing the activities of FAO in each region so that they will all fit into a world pattern. These special advisers are appointed for a year during which they will spend part of their time at Headquarters and part within their own region. At the end of the year they will return to these permanent posts and will be succeeded by another special adviser from the same region. The Director-General considers that these special arrangements are necessary in the first two or three years of the existence of the Organization.

10. The work of some of the countries in agriculture and nutrition has developed on something almost equivalent to an international scale. To avoid unnecessary overlapping with waste of men and money, arrangements are made for the co-operation of all important agencies doing work of international interest, FAO providing the means whereby such agencies can meet and co-operate with it in developing a full and comprehensive world service.

Present State of Development

11. All the technical Divisions have been established with the exception of the Rural Welfare Division, and the Director of each of the Divisions, with the exception of the Agricultural Production and Rural Welfare Divisions, have been appointed. There is a technical staff of 80 in the Divisions and an administrative staff of 35. These figures do not include non-technical staff, such as stenographers. The Secretary-General of IEFC and a number of the statistical staff of the Economics Division of IEFC are provided by FAO and are included in the technical and administrative staff of 115.

12. Several technical reports on matters of immediate practical importance connected with the present food shortage have been submitted to National FAO Committees and provision is made for studies of methods of common interest to all countries, such as co-operatives, credit systems, international marketing agreements, etc.

13. The work which was done at the International Institute of Agriculture is being carried on and is being developed to give quick information on the state of production, markets, prices, etc. of agricultural commodities as well as to continue the periodic statistical reports and the ten-yearly agricultural census.

14. Thirty-one countries have set up National Committees, and it is anticipated that all forty-seven countries will have National Committees established before the next Annual Conference to be held in August or September.

15. It is desirable that all the United Nations agencies setting up regional offices should co-operate in the fields in which they are mutually interested and so perform their functions at less cost than if they were completely separated with little or no intercommunication or co-operation. FAO's work cannot wait until the United Nations organisations are established and in a position to consider jointly plans for regional offices. Therefore, a first temporary office for Europe has been set up at the Rome Institute, which was taken over by FAO, and arrangements have been made for a series of conferences on urgent problems in Europe in the month of March of this year. After consultation with representatives of some of the South American countries, three temporary offices—one for Central America, one in the East, and one in the West of South America—will be set up. Regional offices will be set up in the Middle East, India, and China, as soon as special advisers referred to above have been appointed.

16. A mission has been sent to Greece and accomplished its work and submitted a report. Several countries are now discussing with the Director-General impending requests for missions and technical assistance.

17. The first report on the world food and agricultural position* has been made and a similar report on forestry† and fisheries‡ was prepared and submitted to the Conference at Copenhagen.

* World Food Survey, Washington, 5 July, 1946.

† Forestry and Forest Products, World Situation, 1937-1946, Stockholm, 15 August, 1946.

‡ Standing Advisory Committee on Fisheries, First Report to the Director-General, Bergen, 28 August, 1946.

APPENDIX III

SURVEY SUBJECTS OF SPECIAL INTEREST TO UNDER-DEVELOPED COUNTRIES
(See Chapter 2)

The following subjects are suggested as suitable for comparative studies or world surveys of methods and practices, with special reference to the needs of tropical and sub-tropical countries :—

1. A survey of the uncultivated areas of the globe which can be brought under cultivation.
2. Methods and practices of soil conservation and forest exploitation.
3. Methods and practices of breeding and development of livestock for milk and meat, and of disease prevention and control.
4. Methods of reclamation of malaria and sleeping-sickness-ridden tracts, particularly in the light of experience gained during the war.
5. Collection of information regarding species and varieties of useful plants, crops, and livestock in different countries and investigation as to the possibilities for their introduction in similar climates.
6. Compilation of the results of scientific analysis of tropical foodstuffs from a nutritional angle and inquiry into local dietary customs and habits of cooking food.

APPENDIX IV

AGRICULTURAL INDUSTRY SERVICE OF U.N.R.R.A. (see Chapter 3)

The Agricultural Industry Service of the Agricultural Rehabilitation Division of U.N.R.R.A. has been developing plans and specifications for simple industries, and has been training and supplying advisory engineers to co-operating countries. Their advisory engineers supervise the construction of plants, and also train additional native engineers in the methods used, so that they in turn can encourage and supervise the development of additional plants, and the training of more advisory engineers. While the plants built do not compete in plant efficiency with large-scale enterprises, they do represent a significant advance, in terms of productivity and standard of living of the community, over the more primitive methods already in use.

According to the Head of the Agricultural Rehabilitation Division of U.N.R.R.A., among the types of such simple industrial plants already built in various countries or in process of building, by size and investment required, have been the following :

Kind of Plant	Weekly Output	Cost of building and equipment.
		\$
Rice milling plant	2,800 bus.	2,700
Vegetable oil processing :		
Cotton	1,000 gals.	1,900
Soya Bean	1,350 gals.	
Pig iron smelter	30 tons	3,000
Brick kiln	20,000 bricks	1,200
Cement plant—Asia	350 bags	2,500
Sulphuric acid plant	—	7,500
Ammonium sulphate plant	—	6,500
Sulphate	5 tons	
Coke	200 tons	
Tar	10 tons	
Small power and light (water powered) ...	840 kw. hrs.	1,000
Grain storage bins	60 bu. capacity	20
Grain heat treating equipment	150 bu.	20

The costs shown cover total costs for labour, material and equipment, but do not include the costs of supplying technical leadership or plans.

Experience has shown that experienced men are needed to supervise the constructions of the plants and the inauguration of the work, and to advise from time to time in meeting technical problems as they arise—such as the shifting from one ore-body to another. A continuing national Industrial Extension Service in the member country is therefore needed to supplement the initial technical work in starting the projects.

The experience in U.N.R.R.A. has shown that the international sector of this service requires :

(a) A small central staff to prepare plans, specifications, and directions, recruit and train engineering personnel, and to work out co-operative projects with member nations.

(b) A group of advisory engineers experienced and trained in this work, who can be sent to help countries wishing to inaugurate the work, to train local apprentice engineers to develop and expand the work, supervise the building of more plants in other communities, train local labour to operate its plants, and advise them in meeting new operating problems as they arise.

(c) A permanent training centre, equipped with pilot-plant installations of typical plants of the size and type involved, to facilitate the training of subsequent advisory engineers. This might be established in co-operation with some member nations, perhaps as part of an agriculture college or demonstration station.

This work in U.N.R.R.A. will soon come to an end. We recommend that F.A.O. consider in what form some such service might be continued.

APPENDIX V

BACKGROUND MEMORANDUM ON WHEAT

(Prepared for use of the Commission).

1. Before 1914 government interference with international trade in wheat was limited to a few countries and usually took the form of the imposition of import duties, which in retrospect appear comparatively low. Demand and supply in a well-developed world market were the dominant factors in the determination of price fluctuations and of the trend of world production.

2. The first World War brought a considerable amount of government controls ; but, with the stabilization of currencies and the return to more normal conditions, most of these controls were abandoned. In the middle and later 'twenties, the world market for wheat functioned again in a similar way as before World War I, but Russia and India virtually disappeared as major exporters, and the production of Canada, U.S.A. and Australia was greatly expanded.

3. The depression at the turn from the 'twenties to the 'thirties greatly strengthened the tendencies toward increased self-sufficiency which had already become pronounced as a result of the experience of World War I. Importing countries not only raised their tariffs on wheat flour to levels that, in some instances, were more than twice as high as in the late 'twenties and imposed tariffs in instances where they had previously allowed wheat imports free of duty ; but they had recourse also to a variety of other devices such as special taxes on wheat, milling quotas and mixing regulations, import quotas, permits and licences, and import monopolies. In many instances these measures were combined with price fixing in the domestic market and with subsidy payments to producers.

4. This combination of measures succeeded in separating the domestic wheat markets in many importing countries from the world market. At times prices paid to domestic producers in some of these countries were twice and even three times as high as the c.i.f. prices of imported wheat before payment of duty. These discrepancies are illustrated by Chart I, which shows the price disparities that developed during the 'thirties between five important wheat markets ; Chicago (United States wheat), Liverpool and London (Manitoba No. 3), Paris (home-grown wheat), Berlin (home-grown wheat) and Milan (home-grown wheat).

5. Preferential arrangements and bilateral barter and clearing arrangements further reduced the possibility for competition in the world wheat market. Only a few importing countries whose resources were insufficient to meet their own requirements provided a relatively unimpeded market for the oversea suppliers. Producers in exporting countries confronted with the collapse in prices, far from reducing their production, maintained and

even increased their acreages in an effort to expand their reduced incomes. Table I shows how world acreage has increased during the thirty years before the outbreak of World War II.

TABLE I
Wheat Acreage, million hectares

	1909-13	1922-26	1927-31	1934-38
Canada	4.03	8.93	10.06	10.18
Argentina	6.50	7.27	8.30	7.33
U.S.A.	21.04	25.08	27.26	29.86
Australia	3.08	4.21	6.07	5.22
U.S.S.R.	29.95	21.81	31.89	38.59
India	11.83	12.34	12.89	14.00
U.K.	.75	.70	.58	.76
Italy	4.77	4.71	4.87	5.06
France	6.68	5.44	5.30	5.22
Spain	3.86	4.27	4.40	4.16
Germany (including Austria) ...	1.89	1.69	2.01	2.33
World Total (ex. Iran & China)	115.84	118.35	139.17	151.79

6. The volume of world trade in wheat dwindled from 21.7 million metric tons annually in 1924/5-1928/9 to 14.6 million metric tons in 1934/5-1938/9 (net imports of wheat including flour expressed in terms of wheat.) Countries which traditionally depended for their consumption largely or mainly on external supplies e.g. the United Kingdom, Belgium, Switzerland and Brazil, on the whole maintained their imports. The sharp decline in world trade in wheat was mainly due to reductions in imports into Italy, Germany, including Austria, France, Czechoslovakia, Egypt and Japan (see Table II.)

TABLE II
Net Imports of Wheat (including flour in terms of Wheat)
(Annual Average)

	1924/5-1928/9	1934/5-1938/9	Reduction (a)
	thousand metric tons	thousand metric tons	thousand metric tons
Italy	2,286	512	- 1,774
Germany (including Austria) ...	2,569	844	- 1,725
France	1,437	147	- 1,290
Czechoslovakia	610	-11	- 620
Egypt	289	nil	- 288
Japan	397	71	- 327
Netherlands	778	615	- 163
United Kingdom	5,601	5,465	- 136
Greece	550	457	- 93
China (including Manchuria) ...	653	572	- 82
Belgium and Luxemburg ...	1,094	1,061	- 33
Denmark	261	267	+ 5
Switzerland	441	468	+ 27
Brazil	849	1,012	+ 163
Total of above	17,815	11,480	- 6,336
World Total	21,697	14,650	- 7,046

(a) minus sign means reduction in trade.

positive sign means increase in trade.

Source : Statistics of the Wheat Advisory Committee.

7. While importing countries took various measures to protect their producers, exporting countries, faced with shrinking markets and declining prices resorted to a variety of price supporting programmes, including loans to farmers, purchase for government stockpiles, acreage controls and export subsidies. At the outbreak of World War II

most wheat exporting countries had such programmes in operation. The United States developed a comprehensive system of supporting prices. So-called non-recourse loans were offered to wheat producers in order to assure them a minimum relationship between prices paid and prices received in conformity with the "parity concept." In addition, steps were taken to control wheat acreage. The domestic programmes were, in later years, supplemented by wheat export subsidies paid out of a fund set aside from import duty receipts. In Canada, the Canadian Wheat Board was set up in 1935 to support prices by giving producers an option to deliver wheat to the Board instead of selling it on the open market. The Board paid a minimum advance at the time of delivery and full payment was determined after each crop had been sold. In Australia, the Government introduced a scheme in 1938 which aimed to ensure to wheat producers, in respect of wheat sold for human consumption in Australia, a price equivalent to 5s. 2d. per bushel f.o.b. Williamstown. The plan provided for the application of a special "flour tax" when the export parity should fall below 5s. 2d. Payment to growers would be made from the fund so built. Conversely, by means of a special wheat tax, growers would contribute to the fund when the export parity price should exceed 5s. 2d. Payments would then be made to flour millers. In Argentina the Grain Regulating Board (set up in 1933) purchased virtually all the 1938/9 wheat crop in order to maintain the guaranteed price of 7 pesos per quintal.

8. In the early 'thirties when the export price for wheat had dropped to extremely low levels, the price-supporting measures taken by exporting countries had resulted in the accumulation of stockpiles. Subsequently, the position in the world wheat market was relieved by the disastrous wheat-crop failures in the United States in 1935 and 1936 and by the severe drought experienced by Canada in 1937. With a more abundant harvest in 1938 and increasing production in Europe in anticipation of war, new surplus stocks accumulated in the wheat-exporting countries. Table III shows the changes both in world wheat stocks and stocks in the four principal exporting countries from the middle 'twenties to the outbreak of World War II.

TABLE III

World Stocks of Old Wheat (thousand metric tons)

	Canada	Argentina	United States	Australia	Total	World Total
1922/26 average...	1,007	1,715	3,266	789	6,777	16,928
1927/31 average...	2,395	2,395	5,879	1,198	12,411	23,651
1932	3,701	1,769	10,642	1,361	17,473	27,815
1933	5,933	2,041	10,397	1,497	19,868	30,618
1934	5,525	3,212	7,457	2,313	18,507	32,278
1935	5,824	2,313	4,001	1,551	13,690	25,638
1936	3,456	1,769	3,865	1,170	10,260	21,337
1937	1,007	1,388	2,259	1,116	5,770	15,432
1938	653	1,769	4,219	1,361	8,002	17,146
1939	2,858	4,899	7,484	1,905	17,146	32,496
1940	5,579	6,396	7,484	2,858	22,317	35,735

Source : Estimates of the Wheat Advisory Committee.

The coincidence of these events with a new recession caused the prices for exported wheat to drop sharply again (see Chart. 2).

World War II Period

9. World stocks of wheat rose rapidly in the early years of the war owing to the loss of the European market and to the excellent crops in North America. By the middle of 1943 world stocks in the four principal exporting countries had reached the record level of 47 million metric tons or some three years trade at prewar level. Since that date these stocks have fallen drastically to the dangerously low level of 10 million metric tons despite continued excellent harvests in North America. The factors which have contributed to this violent shift from over-abundance to scarce supply were the very great absorption of wheat for animal feeding in North America, a large industrial usage in the U.S.A. and the heavy demand for wheat from liberated and conquered territories in Europe and the Far East and from India. In 1945-1946 the world trade in wheat attained the remarkable level of 24½ million metric tons.

10. Wheat prices reflected fully the change in supply situation. After remaining at around 80 to 90 cents per bushel (for Canadian wheat) up to 1943 prices rose rapidly especially in 1945 and 1946 to the present extremely high levels and might well have risen further but for the activities of the cereals committee of the C.F.B., later the I.E.F.C. which programmed the flow of the scarce supplies of wheat from the exporting countries to the importing countries.

Present Situation

11. Under the impact of the second World War, the scope of government intervention increased greatly in both importing and exporting countries. Price fixing and regulation of imports and exports by Governments became the principal factors determining the prices of wheat in the various national markets as well as in the various sectors of the international market.

12. At present these prices differ greatly. Of the principal exporting countries, the United States is selling wheat on the basis of current market prices, which for No. 1 dark hard winter at Gulf Ports was \$2.18½ on November 14, 1946. Canada sells wheat at different prices; the wheat agreement with Britain set the price at \$1.55 for the contracted 160 million bushels to be delivered annually during the current and the next crop year and provided for price floors of \$1.25 and \$1.00 for the 140 million bushels to be delivered annually during the third and fourth years of this agreement. To other countries Canadian wheat, No. 1 Northern in store at Fort William/Port Arthur, was sold at \$2.24 as of November 14, 1946. Australia's general wheat price at ocean ports was \$1.77, while Argentina has recently charged \$3.00 per bushel for wheat f.o.b. Buenos Aires. The export price for Turkish wheat was fixed at \$3.92 prior to July 1, 1946. Importing countries have fixed their wheat prices in accordance with their overall domestic price and wage policies and, in general, with little or no relationship to world market prices. Producer subsidies are used in many instances to supplement producer returns from the sale at the fixed prices and consumer subsidies to stabilize costs of living.

International Wheat Agreements

13. In August 1933 the governments of 22 countries, including the U.S.S.R. signed an agreement which—

(a) provided for a 2-year plan to regulate the exports of wheat, check the uneconomic expansion of wheat in importing countries, reduce import barriers when the price of wheat rose to a specified level, etc., and

(b) set up a Wheat Advisory Committee to administer the Agreement and to make periodical recommendations to governments on matters pertaining to production, consumption, trade in and prices of wheat. The operative clauses of the 1933 agreement soon proved ineffective, but the tenure of the Wheat Advisory Committee was extended by two-year periods to August 1940.

14. In January 1939, after intermittent attempts to draft a comprehensive wheat agreement, the task was assigned by the Wheat Advisory Committee to a Preparatory Committee consisting of representatives of Argentina, Australia, Canada, France, Germany, Hungary, Roumania, U.S.S.R., the United Kingdom and the U.S.A. The war not only interrupted this work but also in several important respects aggravated the world wheat problem. In June 1941, however, representatives of Argentina, Australia, Canada, the United Kingdom and the U.S.A. met in Washington and submitted to their governments a preliminary report in August 1941. A Memorandum of Agreement was initialled in April 1942. This received the approval of the five governments in June 1942 and its provisions, amended in June 1946 to take account of the cessation of hostilities, came into effect on that date.

15. The Memorandum of Agreement provided for the convening by the U.S. when the time is deemed propitious, of a conference of all nations having a substantial interest in wheat, whether as producers or consumers; and for consideration by that conference of a general agreement called a Draft Convention prepared by the Washington Wheat Meeting. In the meantime, the Memorandum of Agreement requires the adoption by the five countries of:

(a) measures to control production at the discretion of each of the five countries;

(b) the arrangements described in the Draft Convention necessary to the administration and distribution of the relief pool of wheat.

The preamble to the Draft Convention of 1941/2 refers to the danger of a postwar accumulation of wheat surpluses and points out that a solution of this problem will involve national and international measures for the regulation of wheat production in both exporting and importing countries, the orderly distribution of wheat and flour at prices fair to both producers and consumers and the maintenance of supplies ample to the needs

of consumers without creating a burden of unwanted surpluses. It stresses that abundant supplies cannot be assured to consumers without a substantial decrease in uneconomic incentives to high cost production, a lowering of barriers to world trade and prices to consumers not substantially higher than the price of wheat in international trade.

16. The principal clauses of the Draft Convention provided for control of wheat production and regulation of reserve stocks, management of exports by quotas and the establishment of minimum and maximum prices.

17. In addition, the governments of Argentina, Australia, Canada, the United Kingdom and U.S.A. undertook to establish a pool of wheat for intergovernmental relief to war stricken areas. This provision was put into force and the obligations entered into were carried out after the war.

18. At its 12th session held in July, 1946, the International Wheat Council set up a Preparatory Committee consisting of the thirteen Governments which are members of the Council, and instructed it to revise the Draft Convention drawn up in 1941/2 for submission to an International Wheat Conference. Apart from the relief pool and the discretionary measures to control production none of the principal terms of the 1941/2 Draft Convention were operative.

Future Outlook

19. The present structure of wheat prices is likely to change greatly with the prospective shift from the present scarcity of wheat to more ample supplies and with the return of more normal economic and monetary conditions in the wheat-importing countries. The prospect is, however, that many of these countries, by means of various devices, will maintain protection for their domestic wheat producers.

20. On the basis of war-time legislation, the U.S. Government is under legal obligation to maintain wheat prices at 90 per cent. of parity until two years after the year in which the President will declare the end of the war emergency. The United States has made wheat price supports a regular feature of its agricultural policy by legislation in the thirties.

21. The Canadian Wheat Board's support prices proved to be above market levels for the 1938 and 1939 crops, but from 1940 onwards, the Board's sales realised more than the advance initially paid to producers and the excess receipts were returned to them. Since 1943 the Winnipeg futures market has been closed and the Canadian Wheat Board has been the sole outlet for producers' wheat.

22. In Australia, the Commonwealth Government has compulsorily acquired all wheat produced except for farmers' seed and feed requirements. The wheat so acquired is placed in pools (a separate pool for each crop year) and is being disposed of by a Government Wheat Board by sales for domestic consumption and export overseas. The net returns from the pools, less administrative expenses, are paid to the producers from whom the wheat has been acquired.

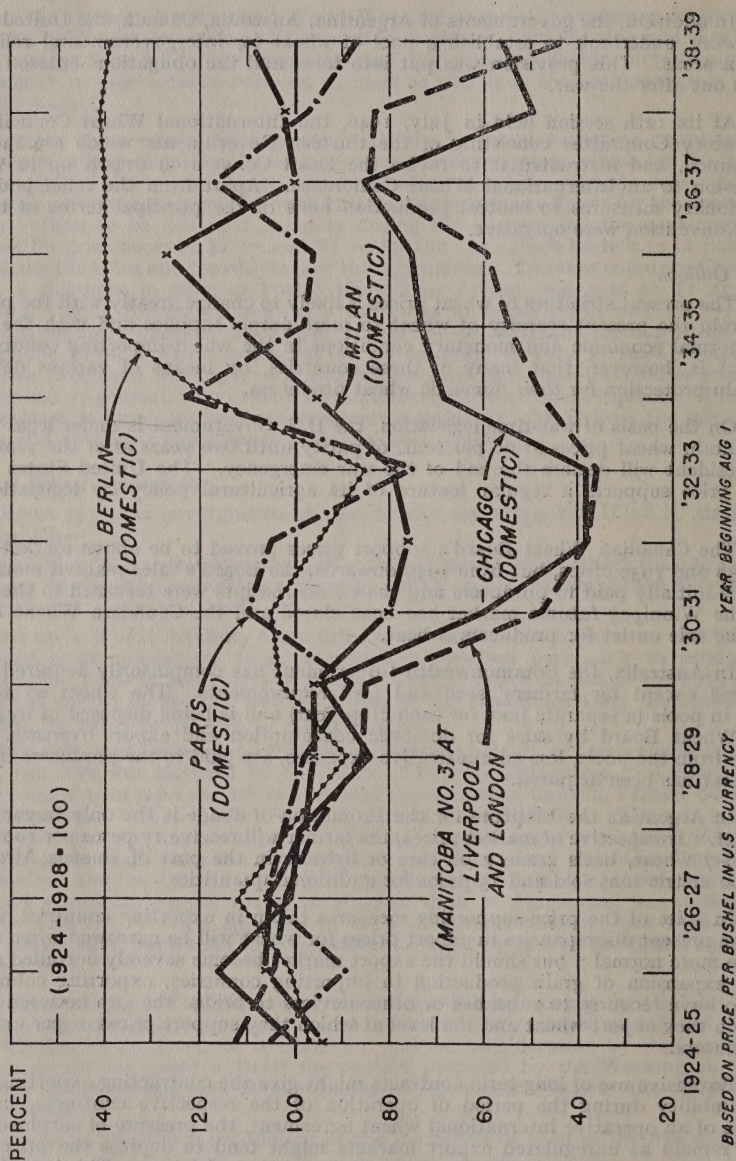
23. In Argentina the Institute for the Promotion of Trade is the only buyer and seller of wheat. Irrespective of market prices, the farmer will receive 17 pesos per 100 kilograms of 1946-7 wheat, basis grade 2 on cars or lighters in the port of Buenos Aires, for the first 300 metric tons sold and 15 pesos for additional quantities.

24. In spite of the price-supporting measures taken in exporting countries, it is likely that the present discrepancies in export prices for wheat will be narrowed when conditions become more normal; but should the export market become severely curtailed as a result of the expansion of grain production in importing countries, exporting countries may need to have recourse to subsidies or other devices to bridge the gap between the prices at which they export wheat and the level at which they support prices or per unit returns, to producers.

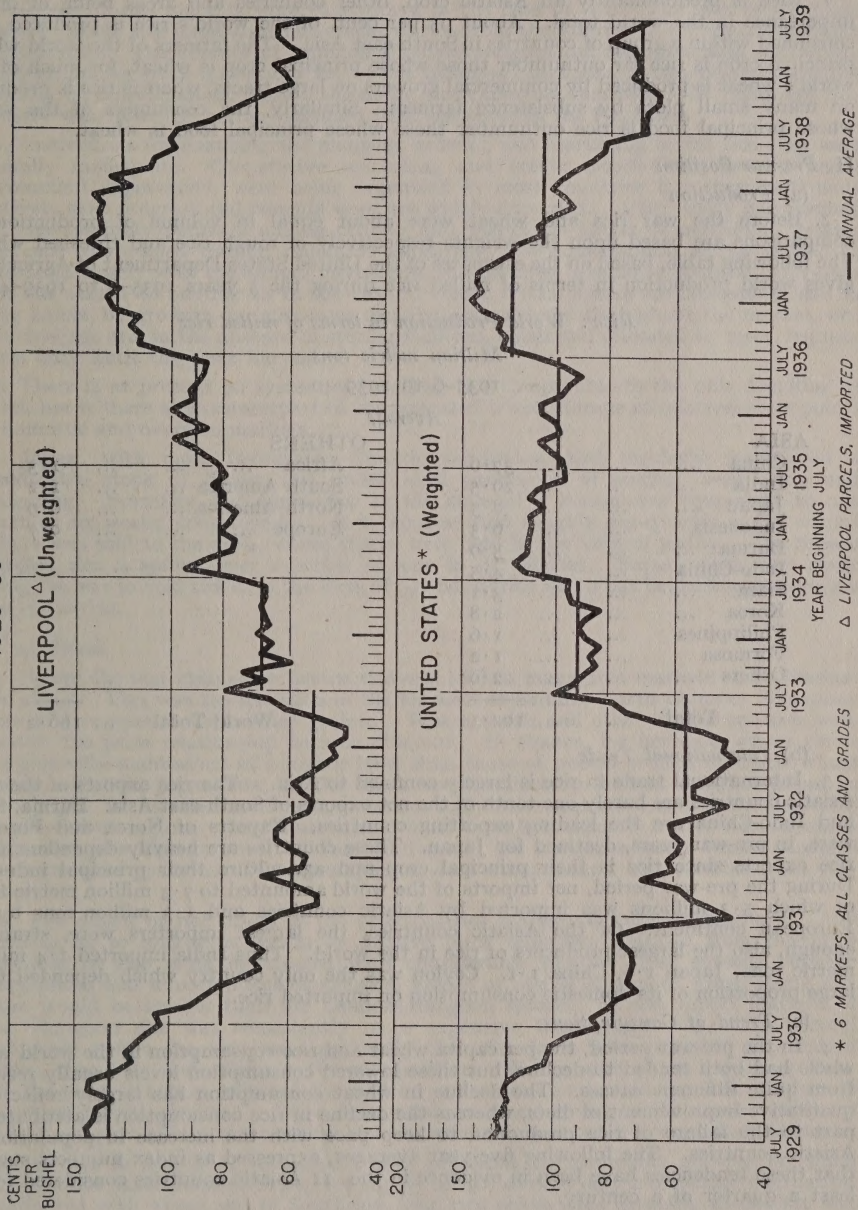
25. Extensive use of long-term contracts might give the contracting exporting countries price stability during the period of operation of the respective contracts, but, in the absence of an operative international wheat agreement, the pressure of surpluses on what would remain as unregulated export markets might tend to depress the prices in these markets the more severely the narrower these markets become. This might, in turn, have repercussions on the prices in the so-called contractual markets.

26. The future prospects for the wheat market are therefore extremely uncertain.

WHEAT PRICES IN FIVE IMPORTANT MARKETS, 1924-25 TO 1938-39



WHEAT: AVERAGE SPOT PRICE PER BUSHEL IN THE UNITED STATES AND LIVERPOOL, 1929-39



APPENDIX VI

BACKGROUND MEMORANDUM ON RICE

(Prepared for use of the Commission)

I. Characteristics of Rice Economy

1. Rice is predominantly an Asiatic crop, other countries and areas being of minor importance in the world total. About 95 per cent. of the world's rice is produced and consumed within a group of countries in South-east Asia. The farmers of the world whose principal crop is rice far outnumber those whose principal crop is wheat, for much of the world's wheat is produced by commercial growers on large tracts, whereas rice is produced on many small plots by subsistence farmers. Similarly, the consumers of the world whose principal food is rice outnumber those whose principal food is wheat.

II. Pre-war Position

(a) Production

2. Before the war rice and wheat were about equal in volume of production, if comparisons are based upon the weights respectively of rough rice and threshed wheat. The following table, based on the estimates of the United States Department of Agriculture gives world production in terms of milled rice during the 5 years 1935-6 to 1939-40.

Rice : World Production in terms of milled rice

<i>Million metric tons</i>			
<i>1935-6 to 1939-40</i>			
<i>Average</i>			
ASIA		OTHERS	
China	37.6	Africa	1.3
India	29.5	South America	1.2
Japan	8.5	North America	0.9
Indonesia	6.3	Europe	0.7
Burma	5.0		
Indo-China	4.5		
Siam	3.1		
Korea	2.8		
Philippines	1.6		
Formosa	1.2		
Others	2.0		
Total	102.1	World Total	106.2

(b) International Trade

3. International trade in rice is largely confined to Asia. The rice exports of the non-Asiatic countries are barely one-tenth of the net exports of South-east Asia. Burma, Siam and Indo-China are the leading exporting countries. Exports of Korea and Formosa were, in pre-war years, destined for Japan. These countries are heavily dependent upon rice exports since rice is their principal crop and agriculture their principal industry. During the pre-war period, net imports of the world amounted to 7.3 million metric tons, of which 5.3 millions was imported by Asiatic countries and 1.3 million tons by the European continent. Of the Asiatic countries, the largest importers were, strangely enough, also the largest producers of rice in the world. Thus India imported 1.4 million metric tons, Japan 1.6, China 1.1. Ceylon was the only country which depended for a large proportion of its domestic consumption on imported rice.

(c) Trend of Consumption

4. In the pre-war period, the per capita wheat and rice consumption in the world as a whole had both tended to decline, but these lowered consumption levels usually resulted from quite different causes. The decline in wheat consumption has largely reflected a qualitative improvement of diets, whereas the decline in rice consumption is attributed in part to the failure of rice production to keep pace with the increase in population in Asiatic countries. The following five-year averages, expressed as index numbers suggest that these tendencies have been in evidence in the 11 Asiatic countries considered for at least a quarter of a century.

<i>Period</i>	<i>Rice Production</i>	<i>Population</i>	<i>Production per caput</i>
1921-25	100	100	100
1926-30	100	106	94
1931-35	106	113	94
1936-40	107	120	89

SOURCE : Food Research Institute, Stanford University : *The Rice Economy of Monsoon Asia*. 1941.

(d) *Marketing Organization and Methods*

5. The prevalence of a subsistence economy in the major rice growing regions of Asia has impeded the development of marketing practices and milling methods of rice comparable to those of wheat. The competitive pressure among the exporting countries was not so strong in rice as in wheat. Because of the absence of uniform trading practices, a lack of communication and other facilities necessary for the functioning of an advanced type of trading, futures markets were exceptional in the case of rice. The lack of adequate transport made any large scale movement of rice from the interior to the central markets impracticable. The absence of common standard weights and measures, and well established grades for price quotations led to the business operations in rice being conducted generally on individualistic lines in the major rice exporting countries. In Japan the rice industry was, however, better organized than elsewhere in the Far East.

6. Institutions for financing the planting, growing and marketing of the rice crop were generally inadequate. Cooperative marketing and credit associations, usually under Government supervision, were being organized in most countries but they had made relatively slow progress and benefits were not widely extended. After paddy had reached the large assembly points or milling centres, and was in the hands of merchants, greater adherence to specified trading standards appeared. The consumption of rice tended to correspond closely with the annual production, so that there was no substantial carry-over from one season to another as in the case of wheat. Rice stocks are commonly held in many hands, by growers, by numerous distributors scattered throughout the market, but their dealings are, in the absence of storing facilities, small and intended to meet requirements only until the next harvest.

7. There is at present no system of handling rice comparable to the bulk handling of wheat, nor is there any counterpart of concentrated wheat storage at relatively few points for domestic and overseas markets.

8. Japan, with more favourable climatic conditions, had regularly maintained a considerable stock of brown rice under ideal conditions of storing, ventilating and fumigating. Normally, the carry-over at the close of a season was equivalent to one month or six weeks' consumption. It is reported that roughly one-quarter of the output in Java was sold to the mills, where stocks were held in the form of paddy. The release of milled rice is spread over a period of four to six months. Experiments were made during the war to hold stocks in the form of par-boiled rice which has better keeping quality than white rice.

(e) *Prices*

9. Before the war cleaned or brown rice was sold in many free markets at a premium over wheat. This was the situation in the markets of Britain, North China or Singapore, where rice competed with other grains. Where tariffs and other import controls were imposed, the price relationship became different. In France, for instance, wheat prices were generally maintained at a higher level than those of rice to protect domestic wheat growers. Rice in Japan was, on the other hand, artificially held at a higher premium over wheat. In Asiatic countries rice was normally more expensive in the wheat-surplus and rice-deficit regions. In China, where most cereals competed freely, rice normally commanded the highest price, kaoliang and maize the lowest, whereas wheat occupied an intermediate position. The price spreads were not constant, but variable from year to year.

10. The record of rice prices in the principal rice markets is very fragmentary. Any inferences as to long-term trends or relative price movements drawn from the price quotations of rice must be treated with considerable reserve. The spreads between export prices and import prices of identical grades of rice in Singapore, Hong Kong and Ceylon would be smaller than the London-Rangoon spread. In the import markets of Java, Rangoon rice was consistently more expensive than Saigon rice. The general relationship before the war was apparently that rice from Siam occupied a premium position, that from Indo-China a discount position. Within each of the exporting countries, the price structure reflected the millers' preferences for certain types of paddy and the milling results obtained. Price differentials between grades of the same variety of rice in large part reflect the content of broken kernels and other commercial factors.

11. As rice is largely a subsistence crop produced by numerous growers on small holdings under traditional methods, the supply of rice showed only a moderate fluctuation as compared with wheat and in Southeast Asia, rice prices were normally somewhat less variable from year to year than wheat prices.

12. The course of gold prices of export rice over the period 1920-1939 differs little from one exporting country to another. In general there was a sharp drop from 1920 to 1921, a moderate rise to 1926, a moderate decline to 1930, a very steep decline to 1934, and gradual stabilisation thereafter at about the 1934 level. Import controls in the Netherlands and East Indies and Japan apparently helped to keep the level of domestic prices in

terms of gold from falling to as low a level in the period 1933-39 (as compared with 1925-29), as they did in the case of the exporting countries. Gold prices of rice in the importing countries moved in 1933-39 at levels which were only 28-38 per cent. of their 1925-29 levels. The level of rice prices fell more than the purchasing power of rice from the middle twenties to the early thirties.

(f) *Government Intervention in Rice Trade*

13. The unfavourable economic position of the rice growers in Asia in the early thirties led to governmental intervention in the rice trade. Such intervention took the form of varying degrees of assistance to the growers or protection to the consumers through export and import controls, the creation of state-owned stocks for equitable distribution, the licensing of middlemen and regulation of their margins, the supervision of weights and measures, grades and so on. Attention is focussed here on the more well-developed systems of control in the pre-war period, in the Netherlands East Indies and in Japan. In Java, the Government introduced a regulation of imports of rice in 1933 with the twin objectives of stabilising rice prices and efficient distribution of the available supplies. This was amended in 1934 so as to equalise imported and domestic rice prices by levying duties on imports. Regulation of Rice Mills was introduced in 1940 to control the various domestic factors which influenced the local market. In 1939, the Government established a Food Fund which operated the policy of organised purchasing of rice from mills at fixed prices and storing it against emergencies.

14. In Japan, the Government attempted directly or indirectly to control rice prices from 1921 on. Various measures were developed: control of the distribution of surplus, control of stocks, price regulation, prohibition of speculation, increase of extraction rate and restriction of industrial use. The rice control schemes in Japan were longer in operation and more comprehensive than any other control measures instituted by other Asiatic countries.

III. *Changes in Rice Economy during the War*

15. As a result of the war in the Far East and the Japanese occupation of the rice-surplus zones, the marketing arrangements and price structure which existed in South-east Asia were completely disorganised. Although it is reported that the Japanese stimulated rice growing instead of plantation crops in the food-deficit territories under occupation there is no information available as to the degree of self-sufficiency achieved. It is evident, however, that the rice industry in the war-devastated regions of China and Burma suffered a serious breakdown. The rice mills were either damaged or put to war uses. The breakdown of the marketing arrangements and lack of export trade resulted in a heavy reduction of output in Burma and Indo-China. Stocks of rice in Siam are reported to have risen to an abnormally high level towards the end of the war. But the total supplies in Southeast Asia were far below the total demand. In India, the acreage under rice was increased by roughly 10 per cent. during the war, but the export and military requirements more than offset a rise in production. The cessation of import of rice from Burma aggravated the shortage of rice in India. Natural causes brought about the crop failure and famine in Bengal in 1943. The shortage of rice again became catastrophic in 1946. The situation in China was also serious and localised rice famine persisted in certain parts of China throughout the war and in the post-war period.

IV. *Current Position and Outlook*

16. Today there is an acute shortage of rice. The supply available for allocation by the International Emergency Food Council is hardly 40 per cent. of the minimum import requirements of the countries for which rice is a staple food. It is estimated that the 1946/47 world rice crop may be about 10 per cent. larger than the 1945/46 harvest, but only 90 to 95 per cent. of the prewar average.

17. In the rice-surplus regions of Southeast Asia (i.e. Burma, Indo-China and Siam), where the acreage planted to rice in 1946 was about two-thirds of the prewar average, the supplies available for export through 1947 are not expected to exceed 2 million metric tons as compared with the prewar exports of 6 million metric tons. The supply of rice from Siam, under the terms of the Tripartite Agreement, has been disappointing, but price-premiums and other inducements now offered to growers may increase procurement in the coming months. Korea and Formosa, which prior to the war exported 1.6 million metric tons of rice, have no exportable surplus this year. Indeed, Korea has appeared as a claimant for rice imports and has been given an allocation by IEFEC to help her tide over the prevailing food shortage. Under the stimulus of wartime demand and high prices a considerable expansion of rice production has taken place in the United States and certain South American countries. The exportable surpluses from the Western Hemisphere coupled with the absence of import claims for Europe have contributed to alleviate the acute rice shortages in Asia. The rehabilitation of the rice industry in the Far East may

take time. In India, the expansion of rice acreage at the expense of export crops has already reached the limit, but the problem of increasing the relatively low yield remains unsolved. In view of the growth of the rice eating population the critical shortage of rice in the Far East is expected to last a number of years.

18. Unlike the world wheat prices, which are relatively stable, rice prices are for the most part uncontrolled and extremely variable from one country to another. The export price in the United States is about three times the basic price in Siam. The price fluctuation is even greater in certain South American countries. The f.a.s. prices in Indo-China and Egypt are reported to be 30-40 per cent. higher than those ruling in Burma. Within each country the amplitude of variation is also considerable. In short, the rice market is in a highly abnormal state.

V. Conclusion

19. Production of rice has fallen by about the same proportion as wheat production, but there are two important differences.

20. *First*, the fall which took place in the production of rice was largely concentrated in the prewar export regions, whereas in the case of wheat there was a significant rise in the production in these areas.

Second, there were no large reserve stocks of rice either in the exporting or the importing countries which could be used to increase the quantum of exportable supplies as contrasted with which large quantities of wheat drawn from stocks were available for increasing exports. The result has been that the price of rice has gone up much more than the price of wheat and black markets in rice flourish much more than they do in wheat. There has also been a reverse of the prewar position of rice exports moving from the east towards the west and non-Asiatic sources of supply now play a more important part in rice export than they did before the war. The shortage of rice availabilities has also led to an additional demand on wheat and thus further complicated the international food picture. The variations which exist today in rice prices in different rice exporting and rice consuming regions are much greater than before the war or than what exist today in the case of wheat. There seems to be, therefore, a clear case for intergovernmental consultation in the case of rice from the point of view of increasing production, minimizing differences in prices, and building up emergency reserve stocks.

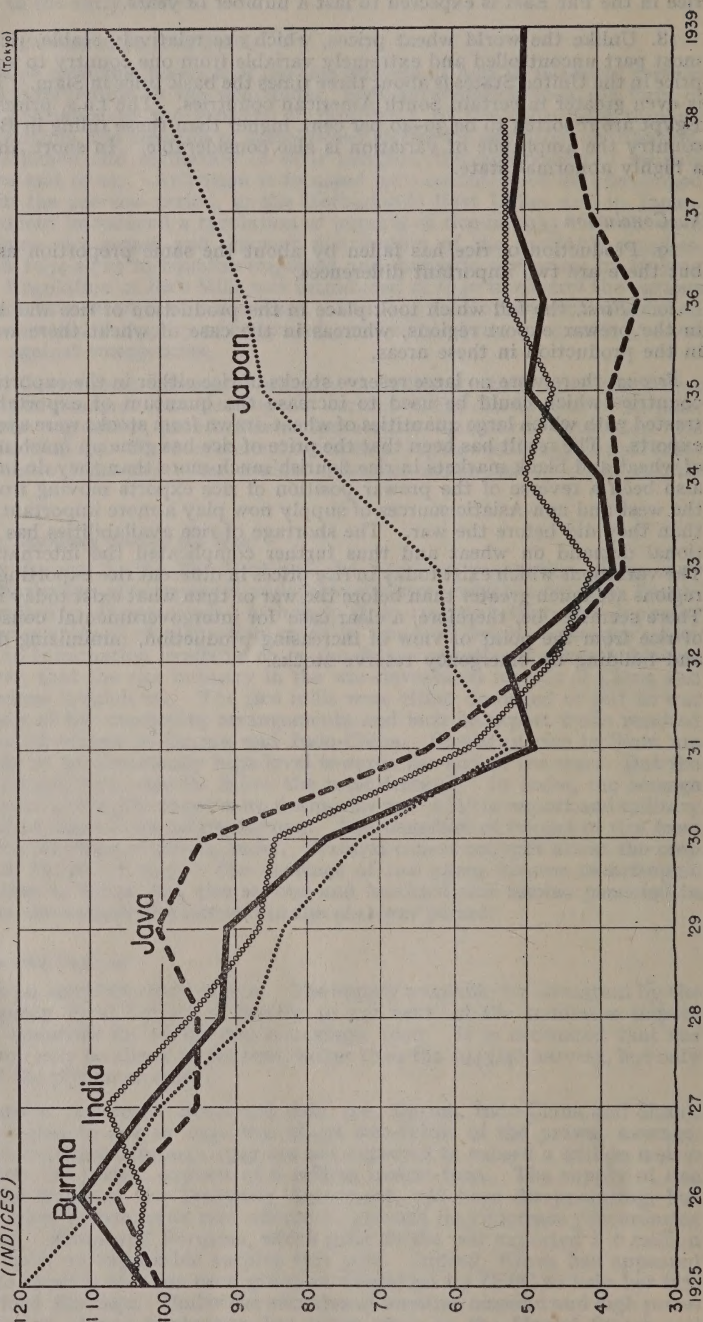
MARKET PRICES OF RICE IN INDIA, BURMA, JAVA, AND JAPAN
COURS DU RIZ DANS L'INDE, EN BIRMANIE, A JAVA, ET AU JAPON

1925-1939

Prices are based on the following quotations

Burma	India	Java	Japan
No 2	Batavia	Baras	Average
(Rangoon)	(Calcutta)	No 1	White
			Brown
			(Tokyo)

(INDEX NUMBERS: 1925-29 = 100)



APPENDIX VII

BACKGROUND MEMORANDUM ON SUGAR

(Prepared for the use of the Commission)

Prewar Position

1. World sugar production averaged 31.2 million metric tons (raw basis) during the 5 prewar years, 1935-39, or about 5 million tons more than the average of each of the 2 immediately preceding 5-year periods. Disappearance or world consumption averaged about the same as production during the 1935-39 period, but world prices for unprotected raw sugar ranged about the low level of 1 cent per pound. Prices for protected sugars, which made up the bulk of production, averaged materially above that level and ranged from 3 to 15 cents per pound.

2. Immediately following World War I, sugar was unusually scarce and prices skyrocketed. This situation generated a marked expansion in production throughout the world. The beet-sugar producing countries of Europe increased production rapidly from the low levels prevailing during the war period, and launched programmes of national self-sufficiency in sugar. This trend was continued until the outbreak of World War II. In the 1920's the important cane-sugar producing areas which were the principal sugar-exporting countries, also expanded production at a rapid rate, partly through the introduction of improved varieties of cane. The result was that, when the world was plunged into the great economic depression in the early 1930's, sugar was being produced in excess of requirements and surplus stocks piled up. (In 1929 the world carryover was 9 million tons). It was not until the middle 1930's that these surplus stocks had been liquidated at a tremendous loss to producers. Production in many of the important exporting areas was forced sharply downward, and production and marketing controls of various kinds were put into operation. Despite these actions, the principal importing countries continued to expand production behind protective trade walls, and, therefore, their requirements and exporters' surplus supplies still failed to balance. Although world prices had improved slightly from the depression lows, they continued at low levels. Thus, there were indications that further adjustments were needed.

Production and Trade

3. Cane sugar is produced in nearly all of the important tropical areas of the world and beet sugar in many of the temperate countries. In many countries cane sugar is produced in sufficient quantities to provide only for domestic requirements but there are a number of areas, namely Cuba, Dominican Republic, Brazil, Peru, Haiti, Java, the Philippines, Formosa, Australia, South Africa, and British, Portuguese and French Colonies, where sugar is an important export crop. Only a few countries produce an export surplus of beet sugar. In normal times, they are Czechoslovakia, Poland, Germany, Denmark, Union of Soviet Socialist Republics, and sometimes Sweden.

TABLE I

Estimated production and consumption by Continents—1935-39 average

Continent					Production 1,000 Metric Tons (Raw value)	Consumption 1,000 Metric Tons (Raw value)
North American, West Indies.					7,912	7,427
Europe	...	...	...	...	9,245	11,477
Asia	...	...	...	...	9,825	8,847
South America	...	...	...	...	2,198	1,853
Africa	...	...	...	...	1,061	894
Oceania	...	...	...	...	944	454
Total	...	...	...	...	31,185	30,952



TABLE II

Estimated total exports and imports by Continents averages 1909-13, 1920-24, 1925-29, 1930-34, and 1935-39

Area	1909-13		1920-24		1925-29		1930-34		1935-39	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons	1,000 Metric Tons
North America, Central America and West Indies	2,197.4	1,940.7	4,461.0	4,016.9	5,286.7	4,496.9	3,267.6	3,216.1	3,479.6	3,167.5
South America	130.2	229.6	513.2	111.8	449.0	179.0	503.3	153.6	528.3	179.0
Europe	2,219.2	2,388.5	1,121.9	2,913.6	2,016.2	3,718.7	1,611.0	3,468.7	1,157.8	3,478.3
Asia	1,228.4	1,539.6	2,100.4	1,319.0	2,980.5	2,261.0	2,677.0	1,463.2	2,130.0	931.2
Africa	157.2	252.0	305.9	127.4	390.5	252.5	506.3	247.7	689.8	133.4
Oceania	126.6	84.0	81.4	91.7	247.8	74.6	407.0	81.8	534.0	83.2
Total	6,059.0	6,434.4	8,583.8	8,580.4	11,370.7	10,972.7	8,972.2	8,631.1	8,519.5	7,972.6

Office of Foreign Agricultural Relations, USDA.

Compiled from official sources. Continental and world totals do not include data for some minor countries.

4. The United States, the United Kingdom, Canada, Norway, Greece, Chile, Bolivia, Uruguay, Switzerland, Finland, Portugal, Iran, New Zealand, China, and Japan are the chief importing countries although much of the Continent of Africa, the Middle East, and parts of south-eastern Asia depend entirely upon imports. In the inter-war years, there was a substantial trade in sugar between countries producing raw sugar for export and certain importing countries which, in turn, exported refined sugar to non-sugar producing areas scattered throughout the world.

5. Partly because of the differences in costs of production existing between beet and cane sugar, and partly because of the nationalistic tendencies in the various countries, sugar production is protected by relatively high tariffs, excise taxes, marketing quotas, subsidies to producers, and other forms of trade barriers. In many importing countries, sugar is taxed as a revenue measure, as are sugar exports in many producing countries. The trade barriers became so restrictive in many importing countries, which also had a national defence programme for expanding relatively high-cost sugar production, that the so-called free sugar market had dwindled from about 6 million tons (about 60 per cent. of world trade) in the mid-1920's to the relatively low level of only a little over 3 million tons (about 35 per cent. of world trade) in 1939 and prices had fallen from around 2½-3 cents to around one cent per pound. By the free market is meant that part of the international trade in sugar which is not regulated by bilateral or preferential arrangements.

Prices and Consumption

6. Because of Governmental intervention in the production and distribution of sugar during the inter-war period, there were marked differences among countries in prices paid by consumers and in the consequent rate of consumption. The table below, although incomplete, indicates some of these differences.

TABLE III*

Per caput consumption, 1934-38 average
Retail prices in 1936 in specified countries

Country	1934-38 average Per caput consumption pounds, raw basis	Retail price of refined sugar, 1936 Cents per pound
Denmark	122.3	4.30
New Zealand	113.8	6.64
United Kingdom	111.2	4.63
United States	103.3	5.50
Canada	102.1	5.70
Australia	109	5.35
Sweden	101.6	9.40
Eire	91.4	7.72
Switzerland	88.4	5.62
Norway	75.4	7.19
Belgium	69.0	—
Czechoslovakia	65.0	11.23
Netherlands	64.6	14.24
Chile	60.4	3.69
Germany	56.4	13.66
France	57.5	9.54
Brazil	49.4	2.84
Poland	27.1	8.45
Italy	19.0	21.80
Yugoslavia	12.6	—
Bulgaria	9.4	—
China	4.1	—

* U.S. Department of Commerce.

7. In addition to the import duties and taxes levied on sugar, many countries provided subsidy payments to producers in order to stimulate production and import quotas to control imports.

8. It is to be noted that there is some relationship between retail prices and consumption—the lower the retail price the higher the consumption rate—but this relationship tends to be distorted somewhat by the marked differences in consumer purchasing power. In some instances duties and taxes are higher than prices, which usually means that the country is either self-sufficient in production or in some cases is a net exporter of sugar.*

War Period

9. During the war years, the international trade in sugar was reduced because of a diversion of shipping to more strategic war purposes and because of war blockades or markets. Rationing became general throughout most of Europe and the Middle East. In the early war years these conditions forced prices further downward and backed up huge stocks in important export-producing areas. This situation gradually changed in 1941, as the demand in the United States increased sharply and shipping to that market remained plentiful. Export prices rose and available supplies were moved into consumption. Then, after Pearl Harbour and the elimination of the Philippines and Java as a supply source for about 2.4 million tons of sugar, shipping for sugar became scarce and rationing became necessary in the United States and Canada.

10. None of the Central and South American countries have found it necessary to ration sugar during the war years, but considerable difficulty has been encountered in maintaining supplies sufficient to meet requirements. In most countries prices rose despite efforts to control them as purchasing power increased. These conditions have resulted in a sharp rise in requirements and as greater supplies became available consumption also increased. Production in many of these countries did not keep pace with requirements and, therefore, imports became necessary. Since the United States and the United Kingdom made joint purchases of all exportable production in all of the important areas except Peru, the supply of sugar available for the Central and South American countries has been limited and prices have risen sharply. In 1945, it was agreed that Cuba should provide at least 150,000 tons to help meet this unrationed demand, and in 1946, 284,000 tons.

11. Sugar production in the world in 1945 totalled 27 million short tons and supplies were the smallest in relation to requirements in 25 years. On a 1944 rationed-demand basis the world was short at least 2 million tons of sugar. This situation was brought about largely by a decline in production in the important export producing areas of the Caribbean and the Indian Ocean occasioned by drought and hurricanes, and in Europe occasioned by war devastation of the beet sugar industry. The Philippines had been liberated but reports indicate that little sugar will be produced there before 1947 as sugar cane fields and sugar mills are in need of rehabilitation. Production of sugar in this area was brought to a halt in 1942. In Java, after a production of around 1.3 million tons in 1942, production went gradually down until it came in 1946 practically to a standstill. Many mills have been put out of action by the removal of machines by the Japanese and the conversion of mills into motor-fuel factories. It is expected that little sugar will be produced in Java before 1949.

Government bulk purchases

12. Beginning with 1942 and continuing through 1945 practically the total exportable surplus of Cuba's sugar industry was sold to the United States Government to meet wartime requirements. These annual crop sales provided for full production except in 1943 when, because of limitations on shipping occasioned by the submarine campaign, it was recommended and finally agreed to limit production. For three years these sales were made at an f.o.b. price of 2.65 cents per pound, substantially above that of any year since 1927. The 1945 sale was made at 3.10 cents. The higher prices together with increased production resulted in the highest income to the industry since the 1920's. In 1946 a new contract was made to purchase the 1946 and 1947 crops at a base price of 3.675 cents per pound subject to escalator clauses based principally on the retail price index of food and the cost of living index in the United States. The highest price paid in 1946 as the result of the operation of the escalator clauses sets the minimum basic price to be paid in 1947. As a result of these escalator clauses, the current price is around 4.76 cents per pound.

* For more details, see "World Trade Barriers in Relation to American Agriculture". Senate Document, No. 70, 73rd Congress, 1st Session published in Washington, D.C., in 1933.

In the case of the Dominican Republic and Haiti production was substantially increased during the war years, as all of the exportable surplus was sold either to the United States or to the United Kingdom at the prices paid for Cuban sugar. Unlike Cuba, these two areas in peacetime depend entirely upon the world free market for an export outlet.

13. The United Kingdom purchased all of the exportable surpluses of the British Dominions and Colonies during the war years and is continuing the bulk purchase up to 1949. Prices paid for the various crops, increased gradually during the war and now approximate to the level paid for Cuban sugar.

International Allocations

14. The Combined Food Board, organized in 1942 with a membership composed of the United States, United Kingdom, and Canada, established a sugar committee which reviewed the supply and distribution of sugar continuously during 1942 and 1943. The primary concern in these years was to maintain a minimum of shipping available to move sugar from the available export producing areas to principal allied consuming countries. In 1944 and 1945 the shipping situation for sugar improved and the problem became one of allocating supplies. Also, the question of increasing production became important. In view of the small supply of sugar available in the world from the 1945 sugar campaign relative to the increased requirements occasioned by the liberation of many countries in Europe, the problem of allocation was very difficult. In 1946, however, it was decided by the I.E.F.C. (which in that year replaced the C.F.B.) that all claimant countries could be supplied with approximately 70 per cent. of pre-war consumption. Because of the variation of actual supplies from the early estimates, many countries did not obtain 70 per cent., but slightly less. For North America and Europe the Board recommended allocations totalled close to 11 million tons of sugar including indigenous production of claim and countries. For the Indian Ocean countries the recommended allocation included only supplies available in the area. This resulted in approximately the same consumption level in the claimant countries as in North America and Europe. It can be said, however, that no country received all the sugar that could have been distributed under unrationed conditions.

Future Outlook

15. It now appears that, although world production of sugar in the 1946 campaign will be somewhat larger than the relatively low total of 1945, the supply situation will not be eased before 1948 and probably not until 1949. It is estimated that for North America and Europe allocable supplies in 1947 will be about 10 per cent. larger than in 1946.

16. When, as is to be expected, production in the Philippines and Java is brought back to the pre-war level and if the European beet-sugar industry is again rehabilitated, sugar will be in a surplus supply position again. It is possible, of course, for the development of such a situation to be delayed somewhat if a generally higher-than-pre-war level of consumer purchasing power is maintained throughout the world. In the United States alone a requirement of 2 million tons above the pre-war level is entirely possible. Also the requirements of many Central and South American countries are now considerably above those of pre-war. Any step taken by Governments to lower trade barriers and continuation of pre-war efforts to promote the marketing of sugar would tend to expand world demand.

17. It seems probable that the supply and demand for sugar at or about current levels of prices, will not balance until 1949 or 1950. The need for continuing price controls and recommended allocations during this interim period will, therefore, remain. To abandon allocations at present would almost certainly result in a further increase in prices and a maldistribution of the available supplies. Extremely high prices at this time would stimulate uneconomic expansion of production and lead to further difficulties when a world surplus develops again.

International Sugar Agreements

18. While several attempts had been made before 1931 to co-ordinate sugar production and consumption, the Chadbourne Agreement signed at Brussels on May 9, 1931, on the initiative of the Cuban sugar industry, can be considered as the first important step towards the stabilization of the sugar market, as it succeeded in including more than 45 per cent. of world sugar production. It was signed by Cuba, Java, and by five European countries. (Germany, Hungary, Poland, Czechoslovakia and Belgium.) Peru and Yugoslavia joined later. Under this agreement, Cuba and Java agreed to curtail their

annual production and the European nations agreed to reduce their exports of beet sugar. The Chadbourne Agreement which ran until 1935, succeeded in disposing of surplus stocks but world sugar prices remained depressed because first, countries not in the agreement expanded their production and/or exports and, secondly world consumption of sugar declined because of the world economic depression. World consumption fell by about 10 per cent. between 1929 and 1932. It is interesting to note that the Chadbourne Agreement established an International Sugar Council responsible for the application of the terms of the Agreement and other matters. This Council became an important centre for the producing countries and permitted the continuation of the studies which led to more effective arrangements.

19. The parties to the Chadbourne Agreement referred the problems of the sugar industry to the League of Nations and the World Economic and Monetary Conference in 1933. They emphasized that a prerequisite to the success of any sugar agreement was the inclusion of all the more important producing and consuming nations. In spite of the efforts of some countries, the only action taken by the Conference was to authorize its Bureau to convene an International Sugar Conference when it would deem it appropriate.

20. Four of the main objectives of the Agreement were :

(1) The establishment and maintenance of an orderly relationship between supply and demand in the world market. This was accomplished by means of export quotas and maximum and minimum stocks.

(2) Always to assure consumers of an adequate supply of sugar on the world market at a reasonable price not to exceed the cost of production, including a reasonable profit, of efficient producers. (A reasonable price is not defined in monetary terms in the Agreement.)

(3) The encouragement and support of all efforts to promote increased consumption of sugar in countries in which consumption is low.

(4) To maintain and if possible expand the free market for sugar (i.e., as the outlets for low cost unsubsidized sugar).

21. The sugar world was divided into three zones, viz., the British Empire, the United States and its territories, and nations which export to the free market. Within the British Empire the United Kingdom beet sugar producers were given a maximum production quota. Australia, South Africa and the various Colonies were given a basic export quota. All these export quotas because of the United Kingdom and Canadian preferences, went to the United Kingdom or Canada. A deficiency in any nation's export quota in any one year might be made good by other exporters. If consumption increased in Empire nations, exporters would have their quotas increased.

22. Similar arrangements prevailed in the United States market which drew nearly all its imports of sugar from preferential areas. Thus, within the framework of the International Agreement, the quota of 850,000 tons free of import duty granted by the United States to the Philippines under the Philippine Independence Act of 1936 was maintained and the preferential treatment accorded to Cuban sugar imported into the United States was continued. With respect to Foreign countries not enjoying preferential rates, the United States undertook to permit a net importation at least equal to the proportion of imports allotted to such countries in 1937.

23. Basic quotas were determined for nations participating in the free market. In the first two years, the Council could reduce the basic quotas by five per cent. In subsequent years the reduction must receive the consent of all members representing countries entitled to export quotas. Should any nation be unable to fulfill its export quota, the balance should be distributed among the other exporters. If consumption should increase in the free market, additional quotas will be allocated pro rata.

24. Stocks were permitted to vary within a determined range. Exporters agreed that their stocks on a determined date each year should not exceed 25 per cent. of their annual production. As exporters also agreed not to allow exports to exceed their allotted quotas, they in fact consented to regulate their production accordingly.

25. If a temporary shortage developed in the free market and free market prices exceeded a maximum figure, subsequently set by the Council at £9 per ton, the Council had the right to secure from certain nations stocks, not exceeding 10 per cent. of their respective export quotas.

26. The Agreement had on balance considerable advantages. The following main problems were encountered.

(1) Each year protracted negotiations were required to narrow the gap between quotas and requirements.

(2) Some beet-sugar producers insisted on export quotas in excess of their recent exports. Consequently basic quotas determined exceeded estimated world requirements.

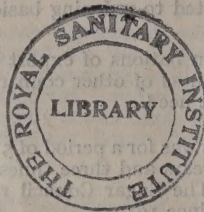
(3) The Agreement lost some flexibility because of the insistence of certain cane producing nations that they would not join an Agreement which did not assure them irreducible minimum quotas.

(4) The Council was restricted to reducing basic quotas by 5 per cent. in the first two years.

(5) The retention by certain nations of export quotas which they could not fulfill and the inability or unwillingness of other countries to make prompt voluntary surrenders of quotas they did not need.

27. The original 1937 Agreement was for a period of 5 years. It was extended by protocol in 1942 for a further period of 2 years and three times thereafter for one year. It is due to expire on August 31, 1947. The Sugar Council remains in existence but the other provisions have been inoperative since 1942.





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